Royal Commission
on Canada's Economic Prospects

Canadian Commercial Policy

by J. H. Young

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by

JOHN H. YOUNG

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When the work of the staff of the Commission was being organized we decided that it should include a study of the tariff and other instruments of Canadian commercial policy. It was intended that this study should be as objective as possible in its approach although we recognized that it is more difficult to separate facts from policy considerations in this field than in some others. Moreover, most experts in tariff matters have decided views not only about theory but also about the way in which theory should be translated into policy, and these views are perhaps bound to be reflected in their writings. The study entitled "Canadian Commercial Policy" by Dr. John H. Young makes a more abstract case for free trade—and does so more explicitly—than perhaps some people would expect or think justified in a staff study for a Royal Commission. We do not accept responsibility for or necessarily approve the statements and opinions which it contains.

Understandably, the Commissioners have been more concerned with tariff and commercial policy in the light of the existing structure of the Canadian economy under the conditions and circumstances of today and of those which we foresee in the future than we have been with theories which in themselves involve certain assumptions and preconceptions and which are, therefore, subject to different interpretations when applied in practice. Our own conclusions about the tariff and commercial policy, insofar as Canada's economic prospects are concerned, are stated in our report.

W. L. GORDON — Chairman

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PREFACE

When this study was being planned it was evident that there was nothing to be gained by attempting to predict what would happen to Canadian commercial policy over the course of the next 25 years. It was equally evident that it was not the function of a staff study to suggest what should happen in this important and controversial area of public policy. It did seem, however, that an analysis of what has happened and does happen might yield some results which would prove useful in weighing alternative courses of action. Topics have been selected for discussion, therefore, with this more limited objective in mind.

There has been a tendency throughout the study to concentrate on fundamentals, and in some places the analysis may seem far removed from the day-to-day problems encountered in developing and administering Canadian commercial policy. The very broad nature of the Commission's terms of reference seemed to call for some consideration of broad alternatives. Moreover, the recent economic history of a number of countries provides many examples of economic policies which have been expertly designed, carefully worked out and, indeed, correct in every respect except the one which really mattered. By failing to deal with the basic problems, these policies were doomed from the outset. This suggests that often the most practical approach to questions of economic policy is one which stresses fundamental principles.

This concentration on central issues, and the fact that there are limits to the time a Commission can be expected to wait for the studies being prepared for it, have meant that a number of important aspects of the subject have been neglected or treated in a highly summary fashion. This is particularly true of those aspects of commercial policy lying outside the range of the Canadian tariff. In a number of cases it will be found that issues and problems omitted from this study are discussed at some length in other studies prepared for the Commission.

Many people have contributed to this study including two, Mr. Simon S. Reisman and Dr. Jean Mann Due, who collaborated directly in the work of preparing the study. Mr. Reisman, under whose direction the work was done, has been in effect joint author. If the other calls upon his time had been less heavy, we would have divided the drafting chores and published the study over both our names. As things turned out, the words are usually mine but the ideas are ours. Dr. Jean Mann Due compiled virtually all the tables appearing in Appendix A and drafted most of the textual material. In the absence of her enthusiasm and persistence the prices study would probably not have been carried out, and the structure of the study would be quite different. Since Dr. Due has not participated in

the revisions which have occurred since she left the Commission, she cannot be held responsible for the final result.

Other members of the Commission staff contributed a great deal either by comments on particular questions or through general discussion. To name one is to name all for the benefits derived from general discussion, but I am indebted to Professor William C. Hood for a mtehematical contribution on tariff making, and to Mr. D. H. Fullerton, Mr. H. A. Hampson, Professor Irving Brecher, Professor David W. Slater and Professor A. D. Scott for comments and detailed discussions of a variety of issues.

Much assistance has been obtained from government officials in the Dominion Bureau of Statistics, the Department of Finance, the Department of National Revenue, the Tariff Board and, in the case of the prices study, the Bureau of Labor Statistics in the United States. Business firms responded generously to requests for information on comparative prices and also supplied much useful information of other kinds. The staffs of the universities have contributed both by providing through their published works most of the analysis used in the study, and by advice on particular questions. It remains to be added that none of the above can be held responsible for the use which has been made of the information and advice so generously provided.

John H. Young

Ottawa,
November, 1957

PART 1

INTRODUCTION AND SUMMARY

1

INTRODUCTION

COMMERCIAL POLICY—that is, policy directed toward influencing the extent and nature of a country's foreign trade—is certain to be of considerable importance in an economy with highly specialized resources and a substantial dependence on international trade. In recent years Canadian imports of goods and services have averaged around 24% of total expenditure, and exports of goods and services around 21% of total output. It is not surprising, therefore, that Canadians have been vitally interested in the commercial policies followed by their own government and those of the countries with which Canada trades.

Historically, commercial policy has had even greater significance in Canada than dependence on foreign trade might suggest. In a country in which the organization and direction of economic life is largely in private hands, this is one of the few ways in which governments have been able to influence the course of economic development. With the growth of government activities other methods of influencing the economy have been developed; but, in spite of these changes, governmental policies which can have a really significant effect on either total Canadian economic growth or the growth of per capita income are limited in number. Policies concerned with the maintenance of economic stability belong in this group. Immigration policy and policies designed to influence the flow of capital into Canada have an effect on total economic growth, and may well have an influence on the rate of growth of per capita income. Similarly, such major public works as the St. Lawrence Seaway, or such governmentally assisted private projects as the Trans-Canada Pipe Line have considerable repercussions on the economic life of regions of the country. Commercial policy, which can influence the extent of international specialization and thereby have a significant effect on Canadian productivity, can be regarded as belonging to this limited group.

While policies of this kind can have an impact, it is important to maintain a proper perspective. Small differences in policy will ordinarily lead to small differences in results: If the government's freedom of action is in practice very limited (as is usually the case), its power to alter the pace

of economic growth is correspondingly limited. On occasion, a good deal of heat has been generated in Canadian politics over what in retrospect appear to have been minor variations in tariff policy. An attempt has been made in this study to estimate the economic importance of the tariff in order to provide some notion of the magnitudes involved in changes in commercial policy.

Like the other staff work done for the Commission, this study attempts to provide an objective analysis of one facet of economic life with which the Commission has been concerned. Since commercial policy, particularly tariff policy, has often been a central issue in Canadian politics, it is evident that the attainment of objectivity raises special difficulties. A few preliminary observations are perhaps in order to indicate how these difficulties have presented themselves, and how they have been met.

There is (and has long been) a striking divergence between the commercial policies which seem to be suggested by the findings of economic analysis, and those followed by most governments. The notion that restrictions on trade imposed by advanced countries usually have an adverse effect on real per capita income is one of the most firmly based conclusions of economics. At the same time, the most obvious generalizations which can be drawn from a study of the history of commercial policy are that most countries have imposed restrictions on trade throughout all of their history, and all countries have imposed such restrictions throughout most of their history. When there is a wide gulf between the suggestions of "experts" and the actions of the public, the most obvious and perhaps healthy reaction is to assume that the alleged experts are probably wrong. A beginning can be made by a critical examination of the economic case for freedom of trade.

An attack on this case can be made at two levels. At the first level, it can be argued that the economic analysis on which the case is based is erroneous, and thus suggests wrong conclusions. There is a second level which goes beyond economics. It can be held that even though the applied theory of trade can show that tariffs and other trade restrictions involve economic costs, these costs should be accepted in order to achieve social and political objectives which are regarded as worth the costs involved. Some enthusiastic critics of the case for freedom of trade are prepared to attack at both levels, arguing that not only is the economic case wrong, but even if it were right, it would be desirable to sacrifice economic benefits for other objectives.

Attacks at the first level can vary from quite crude arguments which display an almost complete lack of knowledge of economic processes to highly sophisticated criticisms of the assumptions of the theory on which the case for freedom of trade is based. It is rather surprising to note that there is a very close similarity between the discussions of this issue

which occur today and those of past decades. This controversy never seems to reach a conclusion or even get closer to a conclusion. Like the discussions of some philosophical issues, public controversy over the economic consequences of a tariff goes on and on from generation to generation with neither side being able to convince the other. This is understandable in the case of some philosophical problems, but the theory of international trade purports to be a scientific theory of sorts, and controversies over scientific theories are usually expected to terminate at some stage with only a few eccentrics remaining unconvinced. The method by which controversies in science are terminated is often a fairly simple one. Theory A suggests that a particular result will follow from a given change. Theory B suggests that the opposite result will follow from such a change. An experiment is conducted which indicates that the result predicted by Theory A is the one actually occurring. Theory B is consequently discarded. It might seem that a similar technique might have proved serviceable in settling the issue between protectionists and free traders. The protectionist argues that the imposition of tariffs or other trade barriers will, in general, raise real per capita income; while the free trader argues that the imposition of tariffs and trade barriers will, in general, lower per capita income. The hypotheses suggested by the two groups are clearly contradictory, and it would appear that reference to the evidence should be able to establish which is right and which is wrong. Unfortunately this is not as easy as one might think. For example, in the past many Canadian protectionists brought evidence to bear in the following way. The United States, they pointed out, has been a protectionist country throughout most of its history and at the same time has been the most successful economy in the world in terms of living standards and general economic well-being. It clearly follows, they argued, that protection leads to these desirable results. Not so, said their opponents, who favoured freedom of trade. The United Kingdom adopted a policy of free trade in the middle of the nineteenth century, and in the ensuing decades enjoyed a considerable measure of prosperity and progress. It is therefore clear, they argued, that free trade promotes prosperity, and the United States would have been even better off if it had followed the good example set by the United Kingdom.

Quite clearly, evidence in this form is not very helpful. The facts seem to point in both directions at once. A little reflection indicates what is wrong. The economic analysis underlying the case for freedom of trade suggests that, other things being equal, real per capita income will generally be lower than it would have been if trade restrictions had not been imposed. The relevant comparison, therefore, is between the economy as it has become with tariffs or other barriers and the economy as it would have been without them. The scientist who can perform controlled experiments is able to obtain data of this kind, but the economist cannot arrange to have a period of economic history relived with a change in one of the conditioning

factors. Since data of this kind are not available, reliance must be placed on evidence of a much more indirect character. Facts of this kind exercise a much weaker disciplinary effect than direct evidence. It is thus possible for quite different views to be held about the effect of trade barriers, none of which can be shown to be quite wrong by a simple reference to the conditions of the real world.

It would thus seem that the economic case for freedom of trade cannot be attacked effectively by a frontal assault. An alternative method involves an examination of the internal logic of the economic theory on which it is based, and a critique of the assumptions which are the foundation stones of the theory. It is important to keep these two aspects of the theory separate. Many of the assertions which are commonly presented in defence of trade barriers can be shown to be erroneous if the ordinary assumptions of trade theory are accepted. Examples would include assertions to the effect that tariffs increase employment, or that tariffs raise income by excluding the products of cheap foreign labour, or that trade barriers are necessary to ensure balance-of-payments equilibrium. Assumptions can be made, however, under which propositions of this kind can have a measure of validity.

Not much time need be spent in examining the internal logic of the economic theory underlying the economic case for freer trade. Important blunders in economics, or for that matter in any well organized discipline, almost never arise from errors in the chain of reasoning. Mistakes of this kind tend to be corrected rather quickly, and when a given theory has withstood the critical examination of several generations of specialists it is unlikely to contain logical flaws. Moreover, the basic notion involved is so simple and obvious that there is little room for logical error. Trade is voluntary and therefore will not be carried on unless it is mutually profitable to the parties engaging in it. Trade barriers prevent such mutually profitable transactions, and therefore can be expected to reduce economic welfare. It should perhaps be a cause for wonder that a complicated theory of international trade is necessary to provide a proof of such an obvious common sense proposition. But with all due respect to common sense, it can on occasion be a treacherous guide in providing an understanding of complex processes. This is the case whenever the effect of a given change is quite different when viewed from a wide as opposed to a narrow perspective, or when viewed from a long-term rather than a short-term point of view. In the case under discussion, if appropriate assumptions are made, the common sense answer does not require any substantial modification—rigorous analysis yields the same conclusion.

While the economic analysis underlying the case for freer trade appears free from logical errors, the basic assumptions on which the analysis is based may be open to criticism. It is often said that something may be all right

in theory but not in practice. Often such a comment reflects an attitude which is altogether too tolerant. An economic theory which has little or no relevance in practice is generally an uninteresting theory. The most telling attacks on the case for freer trade have, therefore, been those which have attempted to prove the irrelevance of the theory by attacking the assumptions on which it is based. Quite early in the historical development of the theory of trade there were those who argued that insufficient account was taken of the process of economic development. It is all very well, they argued, to have a theory which assumed a given technology, a given supply of factors or production, full employment, free competition both domestically and internationally, mobility of resources and the rest; and it is quite true that given these assumptions it can be rigorously demonstrated that a country's income will be higher at a given point of time without trade restrictions than with them. But it may be possible by providing assistance to selected industries to encourage their growth and the economic growth of the country as a whole. While, therefore, an economy may be poorer temporarily, enhanced economic growth will mean higher living standards in the future; and within a few years the country may be better off than it would have been in the absence of trade barriers. This proposition, commonly known as the "infant industry" argument for protection, will be examined in some detail later. It is perhaps enough to note here that although the practical difficulties of its application were recognized, the infant industry argument became widely accepted as an amendment to the standard conclusions of the theory.

Another qualification of very long standing deserves mention. It is concerned with the effect that trade barriers may have on the prices of the goods and services which a country buys and sells. The amount of purchases and sales a country makes will ordinarily have some effect on the prices at which it exports and imports. A reduction in its purchases and sales brought about by the introduction of trade barriers will tend to lower the prices of the things its buys and raise the prices of the things it sells. If the country concerned supplies only a small fraction of the world supply of the commodities it exports, and constitutes only a small fraction of the market for the things it imports, this effect can be expected to be a small one. Some countries, however, are sufficiently important as buyers or sellers that a change in the quantity of their purchases or sales may, at least in the short run, have a significant effect on world prices. Such countries can exploit their power as buyers or sellers and may thereby gain some short-run advantage at the expense of other countries. This is known as the "terms of trade" argument for a tariff. Because of the opportunity which it gives for the use of some of the more refined tools of analysis, it has received a good deal of attention in theoretical discussions over the last half century or so. It is doubtful, however, if considerations of this kind have played a role of any importance in tariff making.

One of the assumptions underlying the case for freer trade, the full-employment assumption, was certainly not satisfied in the 1930's, and it seemed quite evident that restricting the supply of imported goods would help to stimulate employment at home. This would indeed be the result over the short run if such a course of action were restricted to a single country. By creating trade barriers, and perhaps devaluing its currency to improve its competitive position, any one country could improve its position by exporting some of its unemployment to other countries. But if such policies, which have been christened "beggar my neighbour" policies, lead to retaliation all round, then all countries find themselves worse off than they would have been if no such action had been taken. After passing through a decade characterized by practices of this kind, there was a widespread feeling that this should not be allowed to happen again. The international agreements which established the International Monetary Fund, the International Bank for Reconstruction and Development and the General Agreement on Tariffs and Trade resulted from the conviction that some international framework was required if a repetition of these events were to be avoided.

The criticisms outlined above are fairly pointed in nature and draw attention to the weakness of specific assumptions. There is another type of criticism which is much more diffuse in nature. It has been said that although the nineteenth century provided economic conditions not unlike those envisaged by the theory of trade, this is no longer the case in the "administrative" economies of today. The existence of large corporations with enough market power to influence the price of their output, trade unions with some control over wage levels, farm groups with governmental support for the price of their products, and governments with functions as direct traders all create a general environment quite different from that envisaged by traditional analysis. In the good old days, according to this view, economies were competitive, trade flowed freely, prices were flexible, resources were mobile, the gold standard linked the monetary systems of the world and government activities were limited; but in this century everything has changed. The case for freer trade, so the argument runs, may not be wrong—it is simply very old-fashioned. There is an element of truth in this point of view, although it probably exaggerates the contrast between the past and the present. The world has never been neat and tidy, competition has never been perfect or even close to it, rigidities of one kind or another have always been present and adjustments have always been painful and therefore resisted. In the case of some countries there has been a substantial change in the degree to which free markets are permitted to operate by the political and institutional framework, but in only a few countries has this amounted to a difference in the kind of economic system which exists.

This line of argument has only limited relevance when applied to North America in general, and Canada in particular. It is true, to take an obvious example, that the present system of marketing wheat bears little resemblance to the system prevailing 50 years ago. Moreover, the requirements of national defence, past, present and future, have led to a considerable expansion in the share of the national product which passes through the hands of government. Over much of the Canadian economy, however, markets are as free as, or freer than, they were half a century ago, and the economy has in recent years demonstrated a capacity to adapt successfully to new circumstances as they have arisen. Reflecting this environment, Canadian economists have been far less influenced by this line of argument than their colleagues in the United Kingdom and other overseas countries. Indeed, Canadian representatives at international economic conferences have so often expressed vigorous views on the efficacy of the market mechanism that they have been described as lay preachers of the faith in free markets. It is sometimes said that Canadian views represent a hybrid of British and American views, but on this question this is not the case. The views of British statesmen, officials and economists tend to be conditioned by what is regarded as acceptable by a public which has had to withstand a series of hard knocks over the course of the last generation. The picture of the economy which they carry in their minds is therefore one with a very limited degree of flexibility. Interestingly enough, there is an element of this kind of thinking among many Americans as well. The sensitivity of the American political system to local interests seems to have led to a parallel sensitivity on the part of those analyzing the economy, and a tendency to rationalize this point of view in terms of rigidities in the market mechanism. Whatever the explanation, a robust confidence in the capacity of a free market to bring about adjustments to new conditions is much more a characteristic of current Canadian economic thought than of that of most other countries.

A number of other possible lines of attack on the economic case for freedom of trade will be examined in some detail later. Perhaps enough has been said to indicate the vulnerability of some of the assumptions on which the case rests. There is a danger that a list of possible exceptions and criticisms will convey the impression that little survives. This would be quite wrong. In many cases the exceptions are quite unimportant, and in others they provide reasons why it is both easier and more profitable to move in the direction of freer trade by reciprocal agreements with other countries rather than by unilateral action. Taking a broad view, it would appear that the discrepancy between prescription and practice in the field of commercial policy is not primarily attributable to weaknesses in the economic case for freer trade.

No attempt will be made here to discuss at all fully the reasons why governments have frequently adopted commercial policies which have the

effect of reducing economic welfare. If a good deal of weight were to be placed on statements made in public discussions of commercial policy, it would no doubt be concluded that a substantial part of the explanation lies in human error. While misunderstanding certainly plays a part, it is nevertheless true that public discussions are often geared not to the discovery of truth, but rather to the forwarding of particular interests. The general level of understanding is therefore not necessarily revealed by what is said. In order to determine what is really involved one must probe beneath the surface to uncover the underlying forces at work. Generally speaking, restrictions on trade are easy to impose and hard to remove. The political pressures against the removal of restrictions are very strong. Decisions have been taken, plants have been constructed, equipment purchased, labour has come to be employed in protected activities and changes in government policy which would damage the interests of those involved are understandably difficult to make. Unless there are even stronger pressures from those whose interests lie in freer trade, or unless governments are prepared to run the political risks of opposing strong well-organized groups in the interests of exporters and a wide, diffuse and unorganized group of consumers, significant reductions in trade barriers will not occur. The following comment of Walter Lippmann's on the working of the democratic process is very much to the point:

> " . . . the momentous equations of war and peace, of solvency, of security and of order, always have a harder and a softer, a pleasanter or a more painful, a popular and an unpopular opinion. It is easier to obtain votes for appropriations than it is for taxes, to facilitate consumption than to stimulate production, to protect a market than to open it, to inflate than to deflate, to borrow than to save, to demand than to compromise, to be intransigent than to negotiate, to threaten war than to prepare for it."[1]

In the case of Canada, political factors of both a narrow and a broad kind play an important part. There are narrow political pressures of the kind mentioned above which influence commercial policy in all countries. For a variety of reasons such political pressures making for the imposition and retention of trade restrictions appear to have been less dominant in Canada than in some other countries. This is partly a matter of the nature of Canadian political institutions, and partly reflects the fact that a country which depends on foreign trade to the extent which Canada does, cannot afford to be casual in reaching decisions on commercial policy. In both respects Canada differs from the United States. Under a cabinet system of government, changes in commercial policy are initiated and settled by a responsible executive, and this ensures that the various components have at least been weighed against each other and an element of order introduced into the whole. Where responsibility for this is left with the legislature, the

[1]Walter Lippmann, *Essays in the Public Philosophy*, 1955, p. 42.

process tends to degenerate into a scramble for favours for industries in each representative's district or constituency. Commenting on Congressional tariff making in the United States, Senator Vandenburg once remarked:

> "Tariff rate-making in Congress is an atrocity. It lacks any element of economic science or validity. I suspect the ten members of the Senate, including myself, who struggled through the eleven months it took to write the last congressional tariff act, (1930) would join in resigning before they would be willing to tackle another general congressional tariff revision."[2]

A recognition of the weakness of this method has led to a partial delegation of authority to the executive in the United States; but, in spite of the changes which have occurred, American commercial policy remains affected to a greater extent by narrow political pressures than that of Canada. Of course, international trade is much less important for the United States than for Canada being only about one-fourth or one-fifth as large relative to output.

While narrow political pressures have been somewhat less important in Canada than in most other countries, wider political considerations related to broad national objectives have played an important role in Canadian tariff policy. Not all of the broad political arguments have led in the same direction. On the one hand, it has been argued that the cost of the tariff can be regarded as part of the price that Canadians pay for having an independent country. It is suggested that in the absence of tariff barriers between the United States and Canada, the Canadian economy would have developed as a fragment of a larger economy, trade would have moved in response to economic and geographical forces and, lacking a separate economic foundation, the political structure of the country would gradually have become enmeshed with that of the United States. Those who support this view should, in all logic, be as enthusiastic about the existence of the American tariff on Canadian goods as they are about the Canadian tariff on American goods. Both contribute to the economic separation of the two countries, and from the point of view of those who believe that closer economic ties will inevitably promote political integration, a reduction of the American tariff on Canadian goods would be almost as bad as a reduction of the Canadian tariff. Ordinarily the argument is not pushed as far as this. A somewhat similar, although less substantial, argument is offered for trade barriers against goods from overseas countries. Here the emphasis is placed upon strengthening the economic links among the widely scattered regions of the country, and promoting a diversification of economic activities.

This broad political defence of the tariff has traditionally received a substantial measure of support in the country as a whole. Much of this has been

[2]*Congressional Record*, June 12, 1948, p. 8324.

political in the narrow sense. At the same time, there have undoubtedly been many Canadians who have been prepared to forego higher living standards because of their concern over the long-term political consequences of closer economic relations with other countries, particularly the United States.

On the other hand, it has often been urged that politically the tariff has been a divisive rather than a cohesive force in the development of Canadian national unity, and on occasion has been an important factor in promoting regional discontent. In recent years a new consideration has been introduced. The increasing stature of Canada in world affairs has brought new responsibilities, and much has been heard of the need to take into account international political considerations in reaching decisions on all types of policy, including commercial policy. One of the strong advocates of this point of view has been the Hon. Lester B. Pearson who, in a set of lectures published in 1955, said:

> "Today in NATO, we have a common military policy for the area of its commitments, collective and co-ordinated defence arrangements which are becoming stronger and more effective. Nevertheless it is desirable, and may in the long-term prove essential, that this common defence policy becomes the expression of a co-ordinated foreign policy, and be backed up by complementary policies in the economic and social fields. These things cannot be kept in watertight compartments if a coalition or even co-operation, is to be strong and enduring. The present relations between the United States and Canada are an illustration of this. Friendly and neighbourly as these are, it is becoming increasingly difficult and may soon become impossible to accept a situation where our border, to which so many 'unguarded' references are made, is to be nonexistent for purposes of defence but very much in evidence for tariff, trade and other economic purposes."[3]

It is evident from the above comments that quite considerable differences of opinion can exist on the political significance and changes in commercial policy. Since commercial policy is a political as well as an economic instrument, it is quite possible for those who are in agreement on the economic implications of a given policy, to hold quite different views on its general desirability. It would be inappropriate in a study of this kind to take positions on controversial policy issues. The study has therefore been restricted to fact finding and analysis with the aim of providing some of the raw material out of which policy can be formed.

[3]Lester B. Pearson, *Democracy in World Politics,* S. J. Reynolds Saunders and Co. Ltd., Toronto, 1955, pp. 53-54.

2

SUMMARY

An attempt has been made to be reasonably comprehensive, but this study is perhaps best described as an application of economic analysis to some leading questions of Canadian commercial policy. All the elements of economic analysis have been brought into play in dealing with particular issues. The late Professor Joseph A. Schumpeter, one of the leading economists of the last generation, held the view that of the three elements of economic analysis—history, statistics and theory—the greatest is history. Anyone studying Canadian commercial policy would probably agree. There has been a marked continuity in Canadian tariff policy; history may not repeat itself but it certainly resembles itself. Anyone familiar with nineteenth century developments will find few surprises in the twentieth. Part II of this study is therefore devoted to some of the outstanding features of the history of the Canadian tariff from pre-Confederation days down to the present. This is followed by Part III, containing Chapters 6 and 7, which analyzes the economic effect of the tariff. Part III includes the results of a statistical investigation of the effect of the tariff on the prices of goods and services purchased by Canadians. Appendix A gives the detailed estimates which lie behind the total shown in Chapter 6. Part IV is concerned with the internal structure of the tariff rather than its general level: Chapter 8 giving a description of the existing tariff; Chapter 9, a theoretical analysis of the principles of tariff making; and Chapter 10, a discussion of other aspects of commercial policy including a brief account of some problems of customs administration. The concluding portion of the study, Part V, is given over to a discussion of alternative tariff policies.

Certain generalizations have emerged from this study and there is something to be said for gathering them together in one place. This is not without a certain danger. The English economist Alfred Marshall once remarked that any short statement in economics is wrong, and some of the generalizations offered here need to be interpreted in the light of the fuller discussion contained in the text.

If one were forced to write an account of the development of the Canadian tariff in the space of two or three pages there are a few generalizations which could certainly be worthy of inclusion. Perhaps the most obvious relates to the remarkable stability of the Canadian tariff over the course of

the last century. There have been only three occasions on which the tariff has been significantly increased: the Cayley-Galt Tariffs of 1858-59, the National Policy Tariff of 1879 and the Bennett Tariffs of 1930-31. It is noteworthy that on each of these occasions the economy was undergoing a depression or had just emerged from one. Reductions have been ordinarily spread over longer periods. There was a reduction in the tariff of Central Canada at Confederation in deference to the Maritimes, some downward tendency under Liberal governments in the period 1896-1911 and in the 1920's, and a fairly substantial reduction when the depression increases of the early 1930's were undone by a new government and the reductions carried further in the postwar period.

Inferences on recent changes in the level of the tariff are often drawn from changes in the ratios of duty collected to total and dutiable imports. On closer analysis it appears that these ratios exaggerate the extent of the reduction in the protective effect of the Canadian tariff since 1939. As with the tariff of most other countries, many of the Canadian rate changes resulting from tariff negotiations have had some element of window-dressing about them. Nevertheless it can be said that some of the protective effect of the Canadian tariff has been whittled away by the price increases, negotiated rate reductions and changes in customs administration of the war and postwar years. Tariff rate reductions virtually came to an end in 1951 although price increases continued to reduce the ad valorem equivalent of specific rates.

The average level of the tariff today is below that of 1939 and is probably below that of the late 1920's. Since the tariff of the late 1920's is generally thought to represent a slight decline from the tariff of the decade prior to World War I, and the pre-World War I tariff a decline over that of the post-National Policy decades of the nineteenth century, it is not inaccurate to say that present tariff rates are generally somewhat lower than the historical level.

Until the last two or three decades revenue considerations were an important factor in Canadian tariff policy. As late as 1929, revenue from customs duties provided 40% of federal government receipts and it was not until World War II and the years following that tariff revenue fell to less than 10% of total federal revenue. The need for revenue helped to establish the tariff habit in Canada, and in periods of depressed economic conditions when imports and consequently customs revenues fell, arguments for higher tariffs were certain to receive a fairly sympathetic hearing from governments concerned with minimizing the government deficit. Today budget speeches no longer contain extensive analyses of the revenue consequences of tariff changes, and this factor no longer plays any significant role in the determination of tariff policy.

Preferential treatment for goods from British countries has been a feature of the Canadian tariff for the last 60 years. These preferential arrangements have passed through three phases: the first, from 1897 to the early 1930's when preferential margins remained fairly stable; the second, the brief period when the Ottawa Agreements of 1932 played an important role in Canadian commercial policy; and the third, the retreat from Ottawa, which began as early as 1935 and has continued up to the present. In spite of the special encouragement given to trade between Canada and the United Kingdom by these arrangements, the United Kingdom share of Canadian imports has fallen steadily from over 30% in the 1890's, to 20% in 1913, 15% in 1928 and 1939 and just under 9% in 1955. Under the General Agreement on Tariffs and Trade margins of preference cannot be increased or preferences created. This has been the policy followed by Canada throughout the postwar period, but it is interesting to note that in spite of the change made since World War II, a substantial body of preferences still exists and the preferential margins on a number of commodities are higher at the present time than they were in the 1920's.

Reciprocity has figured prominently in Canadian tariff history. On the occasions on which the tariff has been a central issue in election campaigns, the alternatives have not been protection versus unilateral reductions in the tariff, but rather protection versus a policy aimed at the reciprocal reduction of trade barriers between Canada and the United States. When this question has been posed sharply, as in 1891 and 1911, the proponents of reciprocity have been defeated. In the election of 1935 the issue was obscured since at that time both major political parties supported a reciprocal trade agreement with the United States. In 1947-48 the question came up again, but on this occasion discussions between the two governments were terminated before they became a public issue.

Part III which follows the historical discussion is concerned with the effect the tariff has on the economy. There are a number of ways in which an analysis can be made of the economic effects of a tariff. The type of investigation carried out depends upon the questions which are considered relevant. For example, some years ago when the economic significance of the American tariff was being examined, one of the issues which arose involved the extent to which a reduction of the tariff would affect those employed in particular American industries. Much of the literature emanating from groups favouring the retention of the tariff seemed to suggest that the effect of a tariff reduction on employment would be very large. Those favouring a reduction in the tariff were inclined to take a different view. Investigations were made, and the results have been summarized by the author of one of these American studies in the following terms:

> "The claim that has been made by certain interested parties to the effect that reduced tariffs would displace some 5 million workers is

> highly exaggerated. Competent estimates were made a few years ago showing that, even if all tariffs were to be suspended (assuming conditions of economic prosperity to prevail) imports would increase by not more than $1.8 billion and not more than 200,000 jobs (i.e., man-years of work) would be displaced by the increased imports resulting from such suspension."[1]

Estimates of this kind have had to be made on the basis of specific assumptions which can be questioned. Moreover, the component parts of the estimates were in considerable measure dependent upon speculative estimates of the reactions of exporters in other countries to the opportunities presented by an open American market. But while there is considerable room for differences of opinion on the validity of particular estimates, there would probably be general agreement that studies of this kind served a useful purpose in establishing rough orders of magnitude, thus setting some limits to the quantitative notions used by those participating in controversy over the tariff.

An exercise of this kind would not only be much more difficult to carry out in Canada, but also much less interesting. More diffcult, because of the more important part that the tariff plays in influencing the Canadian economy. Less interesting, because the extent to which labour would have to shift in response to a unilateral reduction of the Canadian tariff is not an issue which has received a great deal of attention in Canada.

There is another statistical investigation, however, which has a good deal more relevance under Canadian conditions. It is often said that the tariff is the price Canadians pay for having an independent country. If such a calculation could be made, it would be interesting to know how high a price is in fact being paid. The possibility of estimating the cost of a tariff by adding up the extra amount buyers pay for the products of protected import-competing industries, the difficulties which arise in making such a calculation, the factors which need to be taken into account in interpreting the results—all have received some attention in the literature on international trade. Moreover, three statistical studies of this kind have been made over the course of the last 30 years, two in Canada and one in Australia. The study described in Chapter 6 and Appendix A was only made after a careful examination of these earlier attempts and the criticisms which have been made of them.

The results of the present study can be readily summarized. A comparison was made between the prices paid in Canada for the products of protected import-competing industries, and the prices ruling in world markets. The results were then applied to total Canadian expenditure on these products,

[1]Testimony of Dr. Howard S. Piquet, Hearings before the Subcommittee on Foreign Economic Policy of the Joint Committee on the Economic Report, Eighty-Fourth Congress, p. 575.

and it was found that the extra amount paid in 1954 by private purchasers was equal to 3½% to 4% of total gross private expenditure net of taxes. It was also suggested that if government purchases were included, the effect of the tariff on distribution costs taken into account, and the calculation based upon 1956 rather than 1954, the estimate would have been of the order of $1 billion, about 3½% of Gross National Product. The statistical difficulties were very great and the estimates are only of use in showing the general order of magnitude of the quantities involved.

But what, if anything, do these estimates tell us about the economic cost of the tariff? This is the subject of the longest and perhaps most difficult chapter in the study. Some who would accept the general validity of the calculations on the effect of the Canadian tariff on prices, would be prepared to argue that the economic and quasi-economic benefits derived from the existence of the tariff constitute a significant offset to the out-of-pocket expenses incurred by purchasers of protected commodities. This point of view is discussed and particular attention given to three lines of argument which are frequently offered in defence of this position.

The first is concerned with the economic benefits conferred by the Canadian tariff in a world in which other countries, particularly the United States, maintain trade barriers against exports from Canada. If we lived in a free trade world, according to this view, it would make sense for Canada to trade freely, and a tariff would indeed impose an economic cost. But given that other countries are unwilling to lower trade barriers, it is said to be in Canada's interest to retain or increase existing Canadian barriers. It is pointed out in Chapter 7 that, in the absence of significant consequential shifts in the terms on which a country exchanges exports and imports, it is not in a country's long-term economic interests to retain or increase trade barriers in response to the restrictionist policies followed by other countries. It is suggested, however, that in terms of short-run economic and political considerations there is more to be said for this position, and it has been taken into account in the analysis of economic cost.

A second line of argument which is subjected to fairly lengthy analysis is the young industries or infant industry argument for protection. Supporters of this view hold that although a tariff on the products of a particular industry temporarily leads to a charge levied on the purchasers of protected commodities, a time may come when that industry will be able to exist without this artificial assistance. There is a present economic cost, it is said, but against this must be set an economic gain to be realized in the future. A description is given of the historical origins of this idea and an analysis made of the theoretical basis of the notion and its applicability to present-day Canada. It is pointed out that given the intrinsic difficulty of applying any satisfactory tests, little can be said with certainty. Such evidence as there is, however, suggests that the scope for useful applications of the

tariff for this purpose is likely to be quite restricted in an advanced country such as Canada.

A third topic of discussion is the connection between the tariff and the population-sustaining capacity of the Canadian economy. This is on a somewhat different footing than the previously examined lines of argument. Many who think there is a positive relation between the tariff and population growth hold that this does little, if anything, to reduce the economic burden of the tariff. What is suggested, however, is that a quasi-economic goal—namely a rapid growth of population—is promoted by the existence of the tariff; and if this is so, it should be taken into account when statements are made about the economic cost of protection. As in other cases there is room for some doubt on the correct answer, but analysis suggests that both the general validity and the relevance of the population-sustaining defence of the Canadian tariff are open to serious question.

These are not the only questions encountered in providing an economic analysis of the results of the study on the price effects of the tariff. There are some additional technical problems which complicate matters, but the crucial issue is the effect the Canadian tariff has had on the trade barriers facing Canada's exports. If it could be maintained that the retention of the Canadian tariff has had no influence on the restrictions imposed by other countries, then the conclusion follows that the cash cost estimate probably overstates the reduction in real income arising from the existence of the tariff. On the other hand, if the desire to maintain the Canadian tariff has had an appreciable influence on the barriers imposed by other countries on Canadian exports, then the cash cost estimate represents a substantial underestimate of the total direct and indirect economic cost of the tariff.

The analysis of the economic cost of the tariff is, in effect, devoted to the question of how much higher Canadian income would be if the Canadian tariff had never existed or had been removed at some time in the past. A more interesting question is how large an economic gain could be anticipated from the removal of the tariff at present. It is pointed out in Chapter 7 that the adjustment problems and the short and long-run redistributive effects of a change in long-standing arrangements need to be taken into account in drawing any conclusion. As before, a good deal depends upon whether or not the reduction being considered is unilateral or reciprocal in nature.

Parts II and III are concerned with the general level of the tariff. In Part IV the emphasis shifts to the internal structure of the tariff and other instruments of commericial policy. There are several questions which are posed in Part IV. First, what is the general structure of the present Canadian tariff? Second, is the tariff a logical orderly whole which is based on a consistent set of principles; if not, what steps can be taken to establish a more orderly tariff? Finally, to what extent does the administration of the

tariff and the use of ancillary instruments of commercial policy add to the protective effect of the Canadian tariff? There is no way of summarizing the answer to the first question, but it is thought that the efforts made to isolate the key rates of the tariff will help to point up some of the characteristics of the structure.

The second question forms the central theme of Chapter 8. As might be expected, the Canadian tariff, like the tariffs of all other countries, is not wholly logical or consistent, but has grown up in response to a variety of economic, political and other pressures. In attempting to answer the time-honoured question of whether a tariff can be constructed on a more scientific basis, a theoretical analysis has been included of principles of tariff making. It is shown that if an internally consistent tariff is to be constructed two conditions must be met. There must be a clear-cut objective or a set of consistent objectives of a kind which in fact can be achieved by a tariff. There must also be a maximum price which the country is prepared to incur in achieving the objective or set of objectives. While it is not expected that tariff making will ever be reduced to this simple framework, an approach not greatly dissimilar has characterized some of the recent work of the Tariff Board, and has also had an influence on postwar tariff negotiations. Much remains to be done and no doubt the review of important sections of the tariff, now in process, will produce further useful results. Quite apart from this central aspect of tariff making, there is a need for modernization, simplification, the elimination of anomalies and an improvement in nomenclature.

The third question is discussed in Chapter 10. Some observations are offered on classification and valuation, and a section is devoted to the question of dumping. This is followed by a very brief enumeration and description of non-tariff barriers to trade. It is difficult to generalize, but it is probably correct to say that at the time of writing neither customs administration nor most of the non-tariff barriers to trade add significantly to the protection provided by the tariff.

Part V examines the economic consequences of alternative tariff policies. The alternatives examined are three in number: a large-scale reciprocal reduction of the tariff; a substantial increase in the tariff; and a continuation of the policy followed during most of the period since World War II. It would be dangerous to present the conclusions of this analysis away from the necessary qualifications. One broad conclusion does stand out: in general and over the long run, increases in protection can be expected to lead to enonomic losses, and decreases in protection to economic gains, for the vast majority of Canadians.

PART II

THE DEVELOPMENT OF THE CANADIAN TARIFF

3

COLONIAL PREFERENCE TO THE NATIONAL POLICY

In a study such as this, which is primarily concerned with the present rather than the past, there is something to be said for plunging directly into current problems and issues. This has been rejected on grounds well exemplified by a comment once made by Mr. Justice Holmes. "The life of the law," he remarked, "has not been logic, it has been experience." There must be few areas of lawmaking where logic has played as small a part and history or experience as large a part as in tariff making. An examination of the Canadian tariff quickly reveals that there is no strictly logical explanation for either its level or its structure. There is, however, an historical explanation for both the level and structure. Every section of the Customs Act and every phrase and rate in the Tariff Act has an historical background. Even those parts of the tariff which are relatively new are usually substitutes for older sections and schedules; and in search of the background of particular items, rates or provisions, one is driven further and further back into the past. No attempt has been made in this Part to offer a comprehensive, balanced account of Canadian tariff history. A passage in Macaulay's *Essay on History* has supplied the general principle of selection: "No past event has any intrinsic importance. The knowledge of it is valuable, only as it leads us to form just calculations with regard to the future."

A brief explanation should perhaps be given of the starting point chosen and the periods selected for separate treatment. The search for the origins of particular aspects of the Canadian tariff would ultimately involve going back into the commercial history of France and Great Britain to find the sources of the controls on colonial trade which were imposed when Canadian commercial policy was determined in Europe. A limit must be imposed and the process stopped at some point where there is a convenient break in the historical process. It might appear that Confederation would provide such a break, but this is not the case. The first Dominion tariff was in large measure taken over from the old Province of Canada (after changes had been made in 1866 in anticipation of Confederation), and many of the tariff controversies surrounding the Dominion tariff bear a close family

resemblance to those of the immediately preceding decades in Central Canada. This is not surprising. At the time that the colonies of Canada, Nova Scotia and New Brunswick came together, the population of the Colony of Canada was over four times that of the two Maritime colonies combined, and it was to be expected that the early commercial history of the Dominion would, to a considerable extent, be a continuation of the commercial history of the dominant colony.

In many respects the late 1840's provide a more meaningful starting point. This period marked the passing of the old preferential arrangements between the colonies and Great Britain, and the granting of a measure of autonomy to the colonies in working out their own commercial policy. Between the late 1840's and Confederation all the principal elements which were to play a part in the tariff history of Canada for the next century appeared. British preference, reciprocity with the United States, revenue needs, protection for secondary manufacturing and regional pressures, which all figured in this period, have each contributed to the pattern of Canadian tariff history.

The selection of periods was made almost purely on grounds of convenience. Continuity has been one of the outstanding characteristics of Canadian tariff history, but for ease of exposition a division has been made into three parts; the first covering the 30 years from the late 1840's to just before the National Policy tariff of 1879, the second extending from 1879 to the outbreak of World War II and the third covering World War II and the postwar years.

During the period covered in this chapter, a number of changes in the tariff occurred which are of importance not only in the history of this period but also as forerunners of later events. Major changes in the tariff of the Province of Canada included the Reciprocity Treaty of 1854, the Cayley-Galt tariffs of 1858 and 1859, and the reduction in the tariff just prior to Confederation in deference to opinion in the Maritime Provinces. The early history of the Dominion tariff was in many ways less interesting, although the increase of 1874 illustrates the way in which revenue needs could influence the actions of a Liberal administration committed to a policy of freer trade.

The Level of the Tariff 1847-79

These changes all affected the general level of the tariff. One of the problems in analyzing tariff changes is that of finding a technique by which complex tariff changes can be measured. It should be said at the outset that no completely satisfactory method can be found. There are a number of ways in which complex tariff changes can be quantified, but none of these shortcut techniques faithfully reflects what has actually happened. One popular method uses the relationship of import duties collected to

import values. Two ratios can be constructed: the ratio of duty collected to total imports, and the ratio of duty collected to dutiable imports. It is generally recognized that these ratios are misleading as indicators of the average "height" of a tariff, since commodities bearing low rates tend to be over-represented and products bearing high rates, under-represented. For example, in the extreme case, a tariff made up of a free rate and a set of prohibitive rates would have a ratio of duty collected to total imports of zero, although it might be a highly protective tariff. The ratios are of some use in tracing historical changes although even for this restricted purpose they have serious limitations. These limitations can best be brought out by concrete examples.

Table 1

TARIFF RATIOS FOR THE PROVINCE OF CANADA 1847-67

Year	Ratio of duty collected to dutiable imports	Ratio of duty collected to total imports	Year	Ratio of duty collected to dutiable imports	Ratio of duty collected to total imports
1847	11.7	11.5	1858	16.3	11.6
1848	10.8	10.5	1859	18.9	13.2
1849	16.3	14.8	1860	19.9	13.8
1850	15.6	14.5	1861	19.1	12.0
1851	14.9	13.8	1862	19.4	10.1
1852	15.5	14.6	1863[a]	22.5	12.5
1853	13.6	12.9	1864	21.9	13.6
1854	13.0	12.1	1865	22.4	14.2
1855	13.7	9.8	1866	22.0	15.3
1856	14.2	10.3	1867	19.6	13.3
1857	14.5	10.0			

[a]Fiscal years 1863-67.

SOURCES: 1846-58 Report of the Inspector-General's Office quoted in *Industry of Canada*, p. 337.
1858-67, Calculated from data provided in the annual *Trade and Navigation Reports* of the Province of Canada.

A comparison of Table 1 with later tables covering the movement of the ratios in later periods indicates that this was not a time of dramatic changes. The tariff increase of 1849 shows up in the sharp rise in the ratios, while the effect of the Reciprocity Treaty of 1854 can be seen in the sharp decline in the ratio of duty collected to total imports. Since the treaty merely transferred a number of commodities from the dutiable to the free list and did not lower rates in any other way, there was no corresponding movement of the ratio of duty collected to dutiable imports. The Cayley tariff of 1858 and the Galt Tariff of 1859 are reflected in the rise of both ratios from 1857 to 1860. The decline from 1866 to 1867 was a consequence of the tariff reduction which was made in anticipation of Confederation. All these changes had a significant effect on the level of protection afforded by the Canadian tariff, and to this extent the ratios are an accurate indicator of the direction, and a less accurate indicator of the degree, to

which protection was changed. Other changes which had little or no effect on protection are, however, also reflected in these measures, and to this extent the ratios can be misleading. For example, the increase from 1862 to 1863 is almost wholly a consequence of an increase in the duties on sugar and tea, the protective consequences of which were fairly insignificant.

Table 2

TARIFF RATIOS FOR THE DOMINION OF CANADA, 1868-78

Year	Ratio of duty collected to dutiable imports	Ratio of duty collected to total imports
1868	20.2	13.1
1869	20.2	13.1
1870	20.9	14.1
1871	19.6	14.0
1872	19.1	12.4
1873	18.3	10.4
1874	18.9	11.7
1875	19.6	13.1
1876	21.3	13.9
1877	20.6	13.3
1878	21.4	14.2

SOURCE: *Canada Year Book*, 1921.

Table 2 carries forward the ratios from Confederation to the late 1870's. Tariff changes during this period were fairly minor and this is reflected in the relative stability of the ratios. It will be noted, however, that there was a sharp decline in the ratio of duty collected to total imports between 1871 and 1873 when the ratio fell from 14.0% to 10.4%. This decline was partly due to a reduction in the tariff and partly due to a shift in the composition of trade. In 1871 the coal, grain and flour duties were removed and this was followed in 1872 by the repeal of duties on tea and coffee. The cut in the rate on tea alone accounted for more than half of the decline in the ratio from 1871 to 1873, while the sharp increase in the import of items on the free list such as railroad construction materials, steel, coal, wheat and flour contributed to a fall in the ratio. The 1874 increase in the general rate from 15% to 17½% was reflected in the increase in both ratios from 1873 to 1875.

British Preference 1846-79

The beginning of the period brought an end of the old preferential arrangements between the colonies and Great Britain, and nothing was found to replace them in the succeeding 30 years. The Province of Canada tried to get the decision reversed or changed, and long retained a bitter memory of the abrupt removal of the old colonial system. Some of the economic problems experienced in the period were connected with the change in commercial

policy, but other factors, including a general economic depression, changes in American transportation policies, burdens associated with the Irish Famine migration of 1847 and political disturbances, contributed to colonial difficulties. This conjuncture of events encouraged some of those adversely affected to put forward the alternative of annexation to the United States. It was significant that the *Annexation Manifesto* of 1848 began its description of the state of the economy in the following terms:

> "The reversal of the ancient policy of Great Britain whereby she withdrew from the colonies their wonted protection in her markets has produced a most disastrous effect upon Canada. In surveying the actual condition of the country what but ruin and decay meet the eye."

Given the strong free trade views held by leaders in Great Britain throughout this period, there was no possibility of reinstating a preferential system and the colonies had to make the best of their new situation. The colonial legislatures were given power under the British Possessions Act to repeal the differential duties favouring British products. This power was exercised by the Province of Canada in 1847 when a new tariff act was passed providing common rates for all countries. Thus a one-column tariff was established which was not to be supplanted by a two-column tariff until the introduction of a new system of British preferential arrangements in 1897.

Revenue and the Tariff 1846-78

In these days of high corporate and personal income taxes, when revenue from customs duties provides only around 10% of total federal receipts, the revenue consequences of tariff changes tend to be ignored. This was not the case in the period being examined. Receipts from customs duties in 1860 contributed about 60% of ordinary revenue of the Province of Canada, and this was as high as 66% in the year preceding Confederation. The average was even higher in the Maritime Provinces. In the first decade after Confederation, customs duties provided about three-quarters of federal government receipts. It was inevitable under these conditions that revenue considerations would play a most important part in determining tariff policy, and it is evident from a reading of the history of the period that this was in fact the case. It is often difficult, however, to determine the extent to which revenue requirements on the one hand, and demands for protection on the other, tended to influence policy.

It is sometimes argued that it should not be difficult to disentangle these two factors since the two aims are contradictory. A prohibitive tariff provides a maximum of protection for domestic industry but yields no revenue, while a tariff too low to encourage domestic production yields revenue but no protection. In short, it is argued that the more effective a tariff is in providing revenue, the less effective it is as a revenue producer; while the more effective it is as a producer of revenue, the less effective it must be as

a protective device. There is an important truth in this general assertion, but when the tariff being considered is one in which few, if any, of the important rates are very high, the interests of the treasury and those of the protected industries are generally parallel rather than opposed. Even when many rates are high, it is likely that an increase in rates will raise rather than lower revenue.[1]

In view of the relative importance of customs duties and the positive results which were likely to follow from an increase in rates, it is not surprising that ministers of finance during this period raised the tariff in periods of falling imports to try to reduce the government deficit. A notable occasion on which the tariff was raised in a period of falling imports was in 1859 when Galt raised the general rate to a level of 20% from the 17½% established in the previous year by Cayley. The increased rates brought a complaint from the Chamber of Commerce of Sheffield, and this in turn led to a famous interchange of correspondence between Galt and the Colonial Secretary, the Duke of Newcastle. Since Galt's defence of his tariff included an assertion of colonial fiscal autonomy this interchange is principally of interest from the point of view of constitutional history, but it also throws some light on the factors influencing tariff making at the time. Galt described the purposes of the tariff increase as follows:

> "The policy of the present government in re-adjusting the tariff has been, in the first place, to obtain sufficient Revenue for the public wants; and secondly, to do so, in such a manner as would most fairly distribute the burdens upon the different classes of the community; and it will undoubtedly be a subject of gratification to the Government, if they find that the duties, absolutely required to meet their engagements, should incidentally benefit and encourage the production in the country of many of those articles which we now import."

He then went on to argue that, having regard to conditions in Canada, there was no alternative to the use of customs duties as the principal source of revenue.

> "In Great Britain it may be possible to adjust the taxation, so as to make realized property contribute more than it now does to the wants

[1]Unless the quantity of imported goods demanded is very sensitive to an increase in the tariff, revenue will almost certainly rise. For example, if the price plus the duty of an imported article is $1.20, the duty is 20¢ and the contemplated increase in duty 20¢, then unless the quantity of the imported good demanded falls by 50% as a result of the rate increases, tariff revenue will rise. (In technical terms, it can be shown that unless the elasticity of demand for the imported good—defined in terms of the original price and quantity—is greater than the original price divided by the original duty plus the increase in duty, an increase in a tariff rate will lead to a rise in revenue.) The quantity of an imported good demanded may on occasion be quite sensitive to a tariff change if the commodity can be readily produced domestically. Even under these conditions an interval must elapse before domestic production can be substituted for imports, and revenue may rise in the short run. If the commodity cannot be produced at all domestically, or only at a very high cost, the quantity demanded of the imported commodity may not change very substantially in response to a tariff increase, and such commodities are therefore useful revenue producers.

of the States; but in a country like Canada, no such resource exists, and it would be perfectly hopeless to attempt to raise the required revenue by direct taxation, we neither possess the required machinery to do it, nor are the people satisfied that it is the more correct principle. Customs duties must therefore, for a long time to come, continue to be the principle source from which our Revenue is derived."

He also pointed out that since over 70% of customs revenue was derived from goods paying 20% or less, these rates necessarily had to bear the main burden of any increase. To those who argued that rates could be raised on such items as tea, sugar, etc., he pointed out that it has been found to be "impossible to maintain higher rates than those now imposed —as they are free in the United States, and unfavourable comparisons are even now instituted by our Agricultural population".

With some allowance for the fact that Galt was making a case, this is a fair description of the financial straitjacket in which the Government of the Province of Canada and later the Dominion of Canada was to find itself. A personal or corporate income tax or a sales tax was an alternative which no government of the period was prepared to propose, and thus heavy reliance continued to be placed on customs revenue. It would still have been possible to follow in part the example of the United Kingdom and levy high rates on items not produced domestically or levy rates offset by domestic taxes. But high rates on "revenue" items not produced in Canada were difficult to levy if the United States rates were low on such commodities,[2] and, except for the period of the Civil War, protectionists in the United States were able to keep these rates fairly low. Moreover, there was the same reluctance to levy offsetting internal taxes as there was to initiate other forms of domestic taxation. Thus it was that under a Liberal administration which favoured freer trade a tariff increase was made in 1874, and, but for the opposition of members from the Maritimes, a further increase would have been made in 1876 as a means of obtaining adequate revenue in the face of declining imports. Since Cartwright, who was Minister of Finance during this period, was the outstanding advocate of freer trade in Canada during the latter portion of the nineteenth century, it is evident that the need for revenue in a period when imports were falling substantially could act as a powerful stimulus to tariff increases.

To summarize, the need for revenue in this period and earlier periods helped to establish the tariff habit in Canada; it was easy to move by stages from a tariff for revenue only, to a tariff providing incidental protection, to a tariff primarily designed for protection. Moreover, in periods of depressed economic conditions when imports and consequently revenue fell, arguments for protection were most plausible and were certain to receive a sympa-

[2]As Adam Shortt once observed, there were many border merchants who were protectionists by day and free traders by night.

thetic hearing from governments concerned with the need for minimizing the government deficit.

Protection and the Tariff 1849-78

While revenue considerations played a major role in the determination of tariff policy throughout this period, this does not mean that there was an absence of demands for protection or that such demands did not influence policy. There are indications that pressures of this kind played a part in the tariff increase of 1849, but the first organized group to achieve historical prominence was the Association for the Promotion of Canadian Industry formed in 1858.

This group, the first organized body of Canadian manufacturers,[3] petitioned the legislative assembly for an increase in the tariff, and interviewed the Inspector-General[4], Cayley, a short time before he introduced his new tariff in 1858. In their petition, the members of the association argued as follows:

> "That, in the opinion of your memorialists, the difficulties now experienced by all classes of the community, are, in a large degree, the consequence of the unfair competition to which the present tariff of the Province exposes its various branches of industry; and that with a view to the promotion of general prosperity, a re-adjustment of the scale of duties levied upon imports has become an absolute necessity.
>
> "That the existing tariff is based on erroneous principles, in as much as it admits, at low rates of duty, the manufactures of other countries, which are brought into collision with a class of labour now in Canada not fitted for agricultural pursuits; and charges high rates on articles that cannot be produced within our boundaries."[5]

They went on to suggest that rates on raw materials and rates on such articles as tea, coffee, raw sugar, molasses, etc., which could not be produced in Canada, should be reduced, while rates on manufactures competing with Canadian industrial products should be raised to 25%.

In his reply to a delegation from the association, Cayley pointed out "that the Government was disposed to carry out the views of the deputation as far as consistent with the general interest of the country, and the requirements of the Revenue, and that measures would be submitted during the present session, which if they did not meet their views in all cases, would, he believed, be generally satisfactory".[6] Galt's increase in the tariff came in the following year and in his defence of the increase he was careful to minimize the part played by the protectionist party. As he put it:

[3]See S. D. Clark, *The Canadian Manufacturers Association.*
[4]The title Inspector-General was changed to Minister of Finance in 1859.
[5]Isaac Buchanan, *The Industry of Canada,* John Lovell, Montreal, 1864, p. 488.
[6]*Ibid.*, p. 494.

"It is no doubt true that a large and influential party exists, who advocate a Protective policy, but this policy has not been adopted by either the Government or Legislature, although the necessity of increased taxation for the purposes of revenue has to a certain extent compelled action in partial unison with their views, and has caused more attention to be given to the proper adjustment of the duties, so as neither unduly to stimulate nor depress the few branches of manufacture which exist in Canada."[7]

Galt's professions were in large measure supported by the tariff which he introduced in 1862. Taking advantage of the high Civil War rates imposed in the United States on tea, sugar and coffee, etc., he proposed an increase in the rates on these revenue items offset by a cut in the rates on the general list of manufactured commodities. The Ministry was defeated however, and the tariff revision introduced by his successor, Howland, incorporated the higher rates on the revenue items but left the general rate as high as before. It was not until Galt's tariff of 1866 that the general rate was reduced to bring the tariff of the Province of Canada into closer harmony with that of the Maritime Provinces. The Association for the Promotion of Canadian Industry was succeeded by other organizations which continued to press for higher tariffs, and played a prominent part in suggesting schedules for inclusion in the National Policy tariff of 1879.

Reciprocity with the United States 1846-78

In the years following the loss of their preferential position in the British market the colonies made efforts to reach a reciprocity agreement with the United States. The negotiations were protracted and illustrate graphically the difficulties Canadians have often encountered in securing trade agreements with the United States. What was of vital importance to Canada was relatively much less important to the United States and it was difficult to arouse enough interest in a reciprocity arrangement to secure quick action. Moreover, there was little point in arriving at an arrangement with the Administration if the Senate was not prepared to give its assent. As on later occasions, there were those who favoured retaliatory tariff action to draw attention to Canadian demands, but in the end those who favoured a patient, persistent policy carried the day. Almost eight years were to elapse before this policy led to positive results, and the period might have been even longer if the dispute over the fisheries had not helped bring matters to a head.

In some respects the atmosphere in the United States was favourable for a reciprocal reduction in the tariff. Freer trade notions were in the air. During the 1850's the United States tariff was at a lower level than at any time since 1815[8] and lower than it was to be in any of the succeeding eight

[7] *Op. cit.*, pp. 346-347.
[8] F. W. Taussig, *The Tariff History of the United States*, fifth edition, p. 157.

or nine decades. Moreover, the dispute over fishing rights which came to be connected with the trade negotiations was one which the United States government was anxious to settle on a favourable basis. In other respects the times were not propitious. During one session of Congress, concentration on the problems raised by the Mexican War led to a neglect of other issues. Moreover, the severe sectional struggle, which within a decade was to lead to Civil War, exerted a strong influence over American politics. One of the problems which Canadian negotiators had to face when final talks were held was that of convincing influential members of the United States Senate that an arrangement of this kind would be beneficial to the sectional interests which they represented. Had the principal Canadian representative not been one of Canada's greatest governors, Lord Elgin, it is doubtful if these negotiations would have been brought to a successful conclusion.

The Elgin-Marcy Reciprocity Treaty of 1854 provided for the free interchange between the United States and the British North American Colonies of a comprehensive list of natural products including timber, grain, fish, animals, meat, butter, cheese, flour and coal. The treaty was to run ten years with one year's notice of abrogation. In the Province of Canada, free goods rose from 7% of the total imports in 1854 to just under 29% in 1855 and remained at around the new high level throughout the period while the treaty was in force. As might have been expected, there were some complaints from each country that the other was failing to live up to the agreement. Particular bitterness was aroused in the United States by the Canadian tariff increases of 1858 and 1859. Since these involved manufactured goods, they were within the letter of the treaty, but it was argued that they were contrary to the spirit of the arrangement. Partly because of these increases, but mainly as a result of ill-feeling generated during the Civil War, the United States government abrogated the treaty at the first available opportunity, and the treaty ceased to be effective as of March, 1866. There has not been a time in the 90 years which have since elapsed, that there have not been many Canadians who have felt that another reciprocity treaty with the United States should be regarded as a primary goal of Canadian commercial policy

For a time this was the commercial policy advocated by almost all political leaders in Canada. In 1869, 1871 and again in 1874, attempts were made to re-establish a trade arrangement along lines similar to those of the Reciprocity Treaty. The only occasion on which there seemed any prospect of success was in 1874. In that year George Brown was appointed by the new Mackenzie government to negotiate a trade agreement. Brown negotiated a draft treaty which provided for the reciprocal free entry of natural products as under the old Reciprocity Treaty, but also included reciprocal free entry of agricultural implements and a substantial list of other manufactured commodities including boots and shoes, steel, paper,

locomotives, furniture, manufactures of wood and other products. The Brown-Thornton-Fish Convention, as the draft treaty was called, provided for a 21-year agreement terminable after that interval on three years' notice. The treaty was approved by the British government and only required the assent of the United States Senate to become effective. In the end, it failed to obtain Senate approval and came to nothing. Although it was not a matter of great importance to the United States to obtain an agreement with Canada, in a sense an opportunity was missed by the United States in 1874 which has not presented itself again. On a number of occasions attempts have been made to reach some kind of arrangement with the United States, but no Canadian government since 1874 has been prepared to include free entry on as wide a range of manufactured goods as that included in George Brown's draft treaty.

4

THE NATIONAL POLICY 1879-1939

In the early 1870's trade grew rapidly, revenue was high and expansion was the order of the day. The tide began to turn in 1873, and the Liberal administration which came into office in November, 1873, inherited a full-scale depression which was to plague it until its defeat in 1878. Fifty years later a Conservative government had the misfortune of being elected at the beginning of an even more serious depression and later met the same fate as the Mackenzie government of 1873-78. As on a previous occasion in 1858-59, and as on a later occasion in 1931-33, an increase in the tariff was hit upon as a device for providing employment. In 1858-59 it was christened "incidental protection", in 1879 it was described as a "national policy" and in 1931-33 it was called "blasting a way into the markets of the world"; but to some extent in all three cases it was almost an automatic response to a situation of unemployment. Substitution of domestic production for imports would obviously lead to an increase in employment in the industries affected by the tariff, and the fact that such a gain might be largely offset by a loss of markets for exports was much less obvious.

Because the tariff increases of 1879-87 to some extent coalesced with the political aspirations of a significant segment of the Canadian public, they achieved a certain dignity and a considerable degree of stability. Commenting on these changes some 60 years later the Rowell-Sirois Commission wrote as follows:

> "The protective system thus established during 1879-1887 although modified and refined, and from time to time changed in emphasis, has never since been basically altered. It was a drastic change in the conditions under which the economies of the British North American colonies had grown up, and subsequently was a major factor affecting the development and structure of the transcontinental economy which Confederation had created. It became, in truth, a national policy."

While this description is substantially accurate, there is perhaps some danger that the changes associated with the National Policy will be overdramatized and their effects exaggerated. The tariff increases of 1879 and the period following were very significant and long lasting, but it needs to be remembered that the main list of manufactured commodities bore a rate

of 17½% prior to the tariff of 1879. Since the tariff, then as now, provided a rate for every possible import, the 17½% rate applied automatically to any commodity not specified elsewhere in the schedule. Even in the absence of the National Policy, Canada would have had a substantial tariff—one which would have provided considerable encouragement to the development of protected manufacturing industries.

Changes in the Level of the Tariff 1879-1939

Something can be learned of the changing level of the Canadian tariff from a study of the ratios of duty collected to dutiable imports and duty collected to total imports. As pointed out in the preceding chapter these measures can easily be misinterpreted and must be used in conjunction with other information if they are not to be misleading. Since the period being discussed is an extensive one the ratios have only been shown for selected years.

Table 3

TARIFF RATIOS FOR THE DOMINION OF CANADA, 1878-1939

Year	Ratio of duty collected to dutiable imports	Ratio of duty collected to total imports
1878	21.4	14.2
1879	23.3	16.4
1880	26.1	20.2
1887	28.7	21.3
1888	31.8	22.0
1890	31.0	21.8
1896	30.0	19.2
1898	29.7	17.5
1900	27.7	16.7
1908	26.6	16.5
1913	26.1	17.1
1925	23.3	15.1
1929	24.4	15.8
1933	30.1	19.0
1936	26.7	14.7
1939	24.2	13.8

These ratios reflect the combined influence of several factors, including changes in ad valorem rates of duty, movements in import prices affecting the ad valorem equivalents of specific rates, changes in the composition of trade and shifts in the origin of imports. Nevertheless, the main changes in the Canadian tariff between Confederation and World War II are reflected in the ratios. The change from 1878-80 reflects the impact of the National Policy tariff of 1879, and the further increase up to 1888 and 1890 is partly the result of further rate increases and partly a consequence of falling prices. A comparison of import statistics for 1880 and 1888 reveals that the rise in the ratios was widely distributed and pervasive. Of course during this

period some commodities played a much more important role in determining the amount of duty collected than they do today. For example, the duty collected on sugar made up more than 15% of total tariff revenue in 1888 as compared with well under 2% in 1954. About one-fifth of the increase in the ratio of duty collected to dutiable imports between 1880 and 1890 can be imputed to the rise in the ad valorem equivalent rate on sugar. For the rest, the increases were widely distributed among textiles, iron and steel items, machinery and a number of other commodities. A careful study of protected industries in the 1880's would be required if the significance of these increases were to be accurately estimated. In particular cases—as with the increase in the ad valorem equivalent rates on alcoholic beverages—the increase may have had little, if any, effect on effective protection. But there seems little doubt that in many cases the increase represented a significant increase in protection.

Some minor reductions in rates occurred in the early 1890's, but the most significant change in the tariff during this period came with the introduction of the British Preference in the period 1897-1900. The effect of this measure on the ratios of duty collected to total and dutiable imports can to some extent be brought out by a comparison between the movement of the ratios covering imports from the United States and the United Kingdom.

Table 4

TARIFF RATIOS ON IMPORTS FROM THE U.S. AND U.K., 1896-1901

Year	Ratio of duty collected to dutiable imports		Ratio of duty collected to total imports	
	U.S.	U.K.	U.S.	U.K.
1896	26.7	30.2	14.5	22.4
1897	26.7	30.7	14.3	21.1
1898	26.1	29.5	13.3	20.8
1899	26.3	26.6	13.2	19.8
1900	25.0	25.6	13.2	18.2
1901	24.8	24.7	12.4	18.3

As indicated in Table 4, from 1896 to 1901 the United Kingdom ratio of duty collected to the total imports fell by 4.1% as compared with a fall of 2.1% in the United States ratio, while the United Kingdom ratio of duty collected to dutiable imports fell by 5.5% compared with 1.9% for the United States.

From the turn of the century to the outset of the depression of the 1930's the ratios were fairly stable, reflecting the absence of striking changes in the tariff. The ratios were slightly lower in the 1920's than in the years prior to World War I. The difference was not a marked one, but it is noteworthy that the decline occurred in spite of a strong trend in the other direction in most countries of the world. During the early part

of the next decade, Canadian commercial policy no longer moved against the world trend. A change in an upward direction was perhaps to be expected even in the absence of a prolonged depression as a reaction to the Hawley-Smoot Tariff of the United States. This tariff, which in spite of the fact that it was drafted during a period of prosperity embodied rates as high or higher than any to be found in earlier American tariffs, led immediately to a demand for retaliation in Canada. When this original impetus was reinforced by a dramatic rise in unemployment in 1930-32 Canadian tariff increases became the order of the day. The high point of the ratios came in 1933, and given the substantial restrictive changes in tariff administration which occurred during this period, the increase in the ratios understated rather than overstated the rise in effective protection. A retreat from this high level came with the Canada-United States Trade Agreement of 1935, and was reinforced by other trade agreements in succeeding years. By 1939 the ratios were back to a level roughly similar to that prevailing in the late 1920's.

British Preference

During the 60-year period under review, there were two major periods of change in British Preferential arrangements: the first, from 1897-1900 when a British Preferential tariff was re-introduced; and the second, the period of the 1930's when preferential margins were widened in the first portion of the period and narrowed again under the trade agreements negotiated in the middle and late '30's. In the period from the introduction of the National Policy Tariff in 1879 to the end of the nineteenth century, attempts on the part of Canada to obtain a preferential position in the United Kingdom in exchange for Canadian concessions met with no success. The decision was finally taken in 1896 to extend preferences unilaterally to the United Kingdom. In the period following, preferential agreements were reached with other dominions, but no concessions could be made by Great Britain without a break with their traditional free trade policy. With some exceptions,[1] Great Britain maintained its traditional policy until 1931-32 but with the establishment of a tariff covering a major proportion of British trade, the United Kingdom was in a position to grant concessions to Canada and other Commonwealth countries. Since that time preferential arrangements have been reciprocal in nature.

A glance at Canadian trade statistics for the last half century would suggest that British Preferential arrangements have been fighting a losing battle with other factors influencing trade between Canada and Great Britain. At the time that British Preference was re-introduced the United States share of Canadian imports was rising rapidly. Thus, in spite of the 33⅓% preference extended to the United Kingdom in the period 1897-1900, the

[1]Protection was given to certain key industries, ostensibly for strategic reasons, under the Safeguarding of Industries Act of 1921.

United States share of Canadian imports increased from just over 50% in 1896 to just over 60% in 1901, while the United Kingdom share fell from about 31% in 1896 to 24% in 1901. Apart from the reversal during the early 1930's, this shift in the origin of Canadian imports has continued. The United Kingdom share continued to fall to 20% in 1913, 15% in 1929 and 1939, and just under 9% in 1955. The United States share, on the other hand, rose from 65% in 1913 to just under 70% in 1929 and over 73% in 1955. Similarly the share of Canadian exports going to the United Kingdom has fallen from well over half in the 1890's to less than one-fifth in recent years. Part of this decline is more apparent than real since some of the earlier trade merely involved the shipment of goods by way of the United Kingdom. Nevertheless, the decline has been a significant one and it is clear that any effect arising from special encouragements to trade between Canada and the United Kingdom has been overborne by factors working in the other direction.

Indeed, it is clear that a quite drastic policy would have been required to offset factors making for a decline in the share of the United Kingdom in Canadian trade. It is possible that an Imperial Free Trade area insulated from world trade by a high and rising level of protection might have prevented the shifts in Canadian trade which have occurred; but given the opposition of Canadian protected manufacturing industries to the free entry of British manufactured goods, it would have been necessary to raise barriers even higher against the rest of the world. No doubt some assistance to the redirection of trade could have been anticipated from the retaliation of other countries, but high barriers would have been required. If, however, there had been an unwillingness on the part of all to disregard economic cost, a diversion of trade on a scale sufficient to offset other fundamental factors might have been possible. In fact, a drastic programme of this kind was not acceptable in Canada and also lacked support in the United Kingdom and other Commonwealth countries. Only those with strong imperialist feelings were ever prepared to push this kind of programme very far, and even within this group there were divided views on the political gains and losses to be expected from attempts to redirect trade. There have always been those who argued that the conflict of economic interests to be expected under arrangements of this kind would be divisive politically, and it has often been suggested that the hard bargaining carried on at the Ottawa Conference in 1932 corroborated this view. Be that as it may, it remains true that it was only under the pressure of near-panic economic conditions that Canada and the other Commonwealth countries were prepared to take drastic action to redirect trade to Commonwealth channels, and within a very few years there was a retreat from the position taken. In this, as in so many other respects, the early 1930's were highly abnormal and few of the hastily adopted measures of that period had any permanency.

In recent years Canada has become a champion of non-discrimination and freer multilateral trade. As indicated above, this has not always been the case. Only a few decades ago the British were reading lectures to Canadians on the virtues of non-discrimination and freer trade; the lectures are still being read but now the roles are reversed. Given the principles which at present underly Canadian commercial policy, it is perhaps worth speculating on the extent to which the discrimination practiced by Canada and other Commonwealth countries has tended to operate in the direction of freer trade. Up to 1939 there were three preferential phases: the first from 1897 to the early '30's; the second, the brief period when the Ottawa Agreements of 1932 played an important role in Canadian commercial policy; and the third, the retreat from Ottawa, which in Canada's case began as early as 1935 and continued up to the outbreak of war. For an interpretation of the first and longest phase of tariff preference, the issue involved appears to be a fairly straightforward one. The Canadian tariff as it applied to the United Kingdom was reduced unilaterally, first by steps up to 33⅓% in 1900 and changed in the period 1904-07 to varying percentages. The latter changes, on balance, reduced the significance of the preferences, large margins tending to be given on goods for which the United Kingdom was not competitive and smaller margins on the ones which mattered. In spite of these changes, the Canadian tariff on British goods was lower than it would have been if no changes had occurred. Given the complaints heard from Canadian manufacturers, it can be assumed that some trade was permitted which would not have occurred in the absence of the change. From a world point of view therefore, there was some substitution of relatively low-cost British production for higher-cost Canadian output and this worked in the direction of freer trade. At the same time, there may have been some diversion of imports from relatively low-cost American sources to higher-cost British sources, and this represented a movement away from an optimum world allocation of resources. Trade diversion of this kind generally involved a loss for Canada. The Canadian price of an article might continue to be fairly close to the world price plus the prevailing tariff; but part of the enhanced price to Canadian consumers, instead of accruing as revenue to the Canadian government, found its way to producers in preferential countries.

It is not easy to strike a balance between the favourable and unfavourable economic effects. With reference to the unilateral reductions of 1897-1907 it can be said that Great Britain and the British colonies certainly benefited to a limited extent, while the United States and other non-preferential countries on balance suffered a minor loss.[2] The United States' share of Canadian imports rose so rapidly during this period that any minor diver-

[2]It could be argued that, to the extent to which the reduction in Canadian trade barriers resulting from British Preference had a favourable effect on Canadian real income, this increased imports generally, including those from the United States and other non-preferential countries. This effect might be expected to offset some of the decline resulting from diversion. Something like this could have occurred, but it was probably negligible.

sion of trade was swallowed up without a trace, but presumably some occurred. It is more difficult to say anything precise about the economic effect on Canada. The reduction in trade barriers resulting from the extension of preference reduced protection, but the diversion of trade which resulted had an adverse economic effect. Without a thorough investigation it is impossible to offer any conclusion, but it could probably be argued that if a comparison between the results of an extension and non-extension of a unilateral preference to the United Kingdom were made, it would reveal that the step had had a minor favourable effect on Canada. If, on the other hand, a convincing case could be made that, in the absence of the extension of British Preference, the Laurier government which had been returned to office on a freer trade platform would have been under severe political pressure to lower the tariff in other non-discriminatory ways, then any gain to Canada would be much more in doubt.

In the case of the preferential arrangements with other Commonwealth countries, the problem is more complicated. In some instances trade was diverted from ordinary sources to Commonwealth sources, and producers in other Commonwealth countries were in effect partially subsidized by Canadian consumers. At the same time, some Canadian industries were stimulated by preferential advantages in Commonwealth countries and, to the extent that these industries could not meet world prices, any excess was paid by consumers in other Commonwealth countries. Some of the industrial expansion resulting from these arrangements was clearly uneconomic from a world point of view, but a good deal of work would be required to determine the effect of these arrangements on Canadian real income. It might be noted, parenthetically, that a large and continuing preference to West Indian and other British producers of raw sugar has now been in existence for 30 years. This preference, which has resulted in a substantial premium for sugar producers in these areas, has, together with other preferences of a similar character, tended to offset gains which have accrued to Canadian industries from these arrangements generally.

Some significant changes in preferential arrangements occurred between 1907 and 1929, but the 1930's was the most active decade of the first half of the century for shifts in British Preference, as it was for tariff changes of all kinds. Beginning with the Dunning budget of 1930 and continuing under the Bennett tariffs of 1930 and 1931, the Ottawa Agreements of 1932, the Canada-United States Agreement of 1935, the 1937 Agreement with the United Kingdom and the 1938 Agreement with the United States, substantial changes in the tariff occurred, accompanied by significant alterations in British Preference. At the time these changes received a good deal of attention and a number of studies have been written analyzing the Ottawa agreements and their aftermath. In the long sweep of tariff history, however, this period is less interesting than others which brought more enduring changes in the tariff. Almost everything that was done in the early

1930's has been undone in the period since, although as will be shown in the next chapter there are some important differences in the structure of the tariff, including its preferential provisions, which resulted from the general increase and subsequent decrease in rates. By 1939 this process of reversal had already gone a considerable distance.

There were four major agreements or sets of agreements which altered British Preferential margins in the 1930's. The first was the set of agreements negotiated in Ottawa in the summer of 1932. During the Ottawa Conference, Canada negotiated four agreements, one with the United Kingdom and others with South Africa, the Irish Free State and Southern Rhodesia. These were in addition to the earlier agreements with Australia and New Zealand which had been negotiated in 1931 and early 1932. The agreement with the United Kingdom involved a change in the British Preference on over 200 items in the Canadian tariff. If the increase in preference had been brought about simply by a reduction in British Preferential rates, the agreement would have been less vulnerable to criticism. Of the 200-odd increases in British Preference, however, only 81 came from a reduction of the British Preferential rate, other rates remaining unchanged; 89 from an increase in intermediate or general rates or both; and 49 from a reduction in the British Preferential rate accompanied by increases in the intermediate or general rate or both. Since individual rates vary greatly in significance mere numbers mean very little, but in this case they convey something of the pattern. For example, the automobile preference was widened simply by reducing the rates on automobiles from 12½% or 15% to Free, the intermediate and General rates remaining unchanged. The preference on telephone, telegraph and radio apparatus was increased by reducing the British Preferential rate from 15% to Free and increasing the General rate from 27½% to 30%. The preference on china tableware was widened by leaving the British Preferential rate at Free but increasing the intermediate rate from 27½% to 35% and the General rate from 30% to 35%.

The 1937 Agreement with the United Kingdom followed upon the 1935 Canada-United States Agreement under which the United States had been granted Most Favoured Nation status and, in some products, reductions below the intermediate rates. The preferential margins enjoyed by British goods over those coming from the United States and other treaty countries were consequently narrowed. The 1937 United Kingdom-Canada Agreement differed from the 1932 Agreement in that the only technique used for increasing or creating preferences was rate reduction. Schedule IV of the Agreement enumerated 425 items, with 246 bound at existing rates and 179 reductions in Canadian rates on imports from the United Kingdom. Some important rates were reduced by this agreement. Electric dynamos, generators and electric motors were reduced from 25% to 15%, knitted goods from 25% to 20%, boots and shoes from 25% to 22½%, glass-

ware from 15% to 10%, manufactured structural steel from 25% to 20%, chocolate confectionary 20% to 12½%. An important feature of the 1937 Agreement was a reduction in the number of items on which margins of preference were bound. As the Minister of Finance, Mr. Dunning, said in introducing the Agreement:

> "The reduction in the number of tariff items on which margins of preference are bound against decrease from 215 in the 1932 agreement to 91 in Schedule 5 of the present agreement, is further evidence of the effort that has been made to reconcile the principle of preferences with the necessity of removing barriers that stood in the way of international trade. The new agreement achieves a radical and far-reaching revision of the restrictions which its predecessor put upon the freedom of Canada to negotiate for the reciprocal reduction of tariff rates with third countries."[3]

This new freedom of action was used in the following year in negotiations with the United States and margins of preference again narrowed by a further reduction in rates on imports from the United States. Thus the period ended with a reduction of the Canadian tariff accompanied by a narrowing of preferential margins; a course of action which was to be resumed when the war was over.

Reciprocity 1879-1939

It might seem that the introduction of the National Policy should have marked a turning point in the history of attempts to secure sweeping reciprocal reductions in the trade barriers between Canada and the United States. There is a sense in which this was, in fact, the case. Many of the manufacturing industries which were stimulated by the protection afforded by the higher tariff came to constitute a powerful and continuing source of opposition to proposals for the mutual reduction of trade barriers between the two countries. Moreover, as the protected industries became more important in Canada, the problems of adjustment posed by a large-scale agreement became increasingly serious. There was thus a reluctance to include freer trade in manufactured goods as part of such an arrangement, which made this type of proposal less attractive to the United States. Nevertheless, a provision for reciprocity was included in the tariff of 1879, and reciprocity—at least in natural products—remained part of the programme of both political parties.

A basic difference in attitude between the two major parties developed in the late 1880's and early 1890's when the Liberal opposition adopted "unrestricted reciprocity" as part of its platform. All members of the Liberal party were not in full agreement on this policy; Cartwright being the leading advocate of freer trade with the United States and the party's retired

[3] *Hansard*, February 25, 1937, p. 1242.

leader, Sir Edward Blake, the chief opponent. Blake felt that an arrangement of this kind posed a threat to Canadian independence. Sir Wilfred Laurier, while somewhat more cautious than Cartwright, finally came out firmly in support of unrestricted reciprocity, and in his letters and speeches showed no concern for the political consequences. Other party supporters were worried by the charge that such an arrangement was unpatriotic, and attempted to meet the argument that this would adversely affect the traditional relationship with Great Britain. For example, Sir Oliver Mowat, Premier of Ontario and later Minister of Justice in Laurier's cabinet, spoke as follows during the election campaign of 1891:

> "We are in favour of this unrestricted reciprocity as doing good to our own people, and we are equally in favour of the continuation of the British connection which has happily existed long amongst us. We had reciprocity of a limited kind in 1854, and it is admitted now that though that brought about a little closer intercourse with the United States, though we saw more of them, though we dealt with them, there was never a period in the history of the country when there was so little annexation feeling and when there was more intense loyalty than prevailed during that period. And that loyalty was not diminished one iota when that treaty came to an end. We simply did the best we could. It is a fallacy to assert that unrestricted reciprocity will have any injurious effect upon British connection."[4]

As it happened, the notion of unrestricted reciprocity was never submitted to the test of negotiations with the United States. This was Sir John A. Macdonald's last election and, to use his own words, the Conservatives "worked the 'loyalty' cry for all it was worth" and retained a majority. Reciprocity, restricted or unrestricted seemed to be a dead issue; and when Sir Wilfred Laurier's government assumed office in 1896, improved trade relations with Great Britain rather than with the United States came to be the order of the day.

As every Canadian over the age of 55 or 60 knows from personal experience, reports of the death of reciprocity proved to be much exaggerated. In 1911, 20 years after his defeat on the same issue, Laurier found himself again on the hustings defending reciprocity against a line of argument basically similar to that used in 1891. In several respects the circumstances differed from those of a generation earlier. This time the initiative had come from the United States, and a definite arrangement had already been negotiated. The agreement was not in treaty form, but instead provided for implementation of the negotiated tariff reductions by concurrent legislation. The agreement provided for a free list, Schedule A, consisting primarily of natural products but including a few manufactured goods, not-

[4]Speech by Oliver Mowat, Feb. 18, 1891, quoted in *Sir Oliver Mowat* by C. W. Biggar, Vol. II, Toronto, 1905, p. 581.

ably iron and steel sheets. Schedule B of the agreement provided for equality of tariff rates on a few manufactured commodities, including agricultural implements and automobiles. In general the rate reductions on these items were small. Finally, the agreement contained two other schedules listing a few rates which would be reduced by each country separately. The American concessions to Canada applied only to Canada, but all the Canadian concessions to the United States were extended to British Preferential countries. The coverage of the agreement bore a close resemblance to the Reciprocity Treaty of 1854, and, on the face of it, seemed so favourable to Canada that little opposition was anticipated. In fact it became the principal issue of the election of 1911, and while a number of other factors no doubt played a part, the defeat of the government was interpreted as a defeat of reciprocity.

Two major defeats on the same issue might have been expected to discourage further efforts to secure reciprocity, but when a Liberal administration returned to power the basic policy remained unchanged. Speaking in the debate on the budget of 1922 the Minister of Finance, Mr. Fielding, said:

> "We, the Liberal party, say that if at any moment our American neighbours are prepared to meet us in the spirit in which they came to us in 1910 and 1911 we are ready to discuss the matter with them, with a willingness to make a satisfactory arrangement so long as we protect the interests of Canada as we did in 1911. My right hon. friend and his associates, on the other hand, take the opposite stand. They say: 'Don't come, keep off the grass!' And that is a big enough and broad enough difference to divide two parties in this country."[5]

In his budget speech in the following year, Mr. Fielding returned to this topic:

> "As to the willingness of Canada to have a measure of reciprocity between the two countries there ought to be a no question. A minister of this government went to Washington and informed the government and the Congressional leaders of Canada's willingness to enter into negotiations for another reciprocity treaty. They know our willingness in this regard, and I think it is well we should say it again."[6]

These overtures came to nothing. The United States in the 1920's was moving in the direction of higher, rather than lower, tariffs. The Underwood Tariff of 1913 had to a considerable extent included the reductions envisaged by the 1911 Reciprocity Agreement, and by American standards had given the United States a moderate tariff. The average rate of United States duty on dutiable imports from 1913-22 was 27.0% and the aver-

[5]Speech on the Amended Resolution in the House of Commons, June 12, 1922.

[6]Budget Speech of 1923, delivered by the Hon. William S. Fielding, in the House of Commons, May 11, 1923.

age rate of duty on total imports 9.1%. A substantial increase in these ratios resulted from the Fordney-McCumber Tariff of 1922 and for the period 1922-30 the ratios rose to 38.5% for dutiable imports and 14.0% for total imports.[7] The introduction of the Hawley-Smoot Tariff in 1930[8] and the price decreases of the following years raised the averages again, and for the period 1930-33 the average rate of duty on dutiable imports was 52.8% and on total imports 17.7%.

Throughout the early 1930's commercial relations between Canada and the United States reached a low point as a result of depressed economic conditions, the commercial policy of the United States, and Canadian reactions to it. With the election of a new American administration, however, followed by the passage of the Trade Agreements Act of 1934, the way was cleared for reciprocal reductions. The two agreements of 1935 and 1938 were the first large-scale commercial agreements between Canada and the United States which had been carried to a successful conclusion since the Reciprocity Treaty of 1854 and are significant for that reason. They did not, however, involve a significant departure from traditional commercial relations, but rather a return to the *status quo ante* after the disruption of the early '30's. It was not until the years following World War II that consideration was given to a reciprocal proposal which would have involved a radical departure from the long-term pattern of Canadian-American trade relations.

Revenue and the Tariff 1879-1939

Throughout the 60-year period from the National Policy Tariff to the eve of World War II, revenue was always a consideration which could not be ignored in making tariff decisions. As recently as 1929 revenue from customs duties provided 40% of federal government receipts, and no Minister of Finance could afford to forget the reduction in revenue which would result (at least over the short run) from a reduction in tariff rates. As indicated in the previous chapter, this created a link between the interests of the treasury and the protected industries.[9] The restriction of duties to

[7]D. B. Marsh, *World Trade and Investment*, p. 455.

[8]The Hawley-Smoot Tariff of 1930 could not be described as a depression measure. As Professor Taussig pointed out at the time: "There was no economic pressure. Not only during the campaign (of 1928), but during most of the time when the measure was under consideration, the country was at the top of a boom. Although the familiar bogie of impending breadlines under free trade was trotted out here and there in the course of the campaign, there was no whisper of existing crisis from that sinister cause. The crisis of the autumn of 1929 did not occur until the character of the measure was settled." F. W. Taussig, *Tariff History of the United States*, p. 490.

[9]In the years immediately following World War II there was a similar example of a situation in which the interests of the treasury encouraged the retention of a policy with wide economic consequences. This was true of a number of Western countries. During the postwar inflation, both analysis and experience suggested that the circumstances called for action on the part of central banks to operate on the bond market and the banking system to restrict credit expansion and raise rates of interest. Since governments were themselves large debtors, this would have involved an increase in the cost of servicing the public debt and would have led to an unpopular decline in the market price of government bonds. While other factors, including an inordinate fear of depression, played an important part,

items not produced in Canada or the acceptance of other methods of taxation would have severed this link, but there were significant obstacles in the way of such a change. As a result, revenue needs provided additional justification for the increase in the tariff in 1879 and, in the long period of relative stability which followed the increases of 1879-87, blunted the edge of the opposition to the tariff.

When putting forward the National Policy tariff the Minister of Finance, Mr. Tilley, put major emphasis on its protective aspects. At the same time he drew attention to the fact that steps were necessary to increase revenue through the tariff if a deficit were to be avoided. The way in which revenue needs led to qualifications in the opposition to the tariff is well illustrated by Laurier's speech to the 1893 Liberal Convention:

> "I say that the policy should be a policy of free trade, such as they have in England; but I am sorry to say that the circumstances of the country cannot admit at present of that policy in its entirety. But I propose to you that from this day henceforward, it should be the goal to which we aspire. I propose to you from this day, although we cannot adopt the policy itself, to adopt the principle which regulated it; that is to say, that though it should be your misfortune for many years to come to have to raise a revenue by customs duties, these duties should be levied only so far as is necessary to carry on the business of government."[10]

Protection and the Tariff

In 1878 Sir John A. Macdonald put forward his famous resolution calling for a National Policy which by "a judicious readjustment of the tariff" would benefit and foster the agricultural, mining, manufacturing and other interests of the Dominion, retard emigration to the United States, restore prosperity, prevent the dumping of foreign goods in Canadian markets, encourage interprovincial trade and provide a bargaining weapon for tariff negotiations with the United States.[11] After he had presented the resolution an honourable member opposite said: "Is that all?" Sir John replied, "It may be too much for you." It did indeed prove to be too much for the Liberal government then in office, and, for that matter, has proved to be too much for those favouring freer trade ever since. Macdonald's speech on this resolution is one of the best presentations of the case for Canadian protection ever made; vastly superior to the Budget Speech[12] in which Tilley introduced the National Policy tariff in the following year. After referring

the unwillingness of treasuries to accept the consequences was a factor of some significance in preventing a number of Western central banks from following what in retrospect appears to have been an appropriate monetary policy.

[10]Edward Porritt, *Sixty Years of Protection in Canada 1846-1907*, p. 375.

[11]House of Commons Debates, March 7, 1878, p. 854.

[12]There are few well-known erroneous economic arguments for protection which Tilley did not manage to include somewhere in his speech.

to depressed economic conditions and the part that the tariff might play in overcoming current difficulties, Macdonald went on to discuss broader issues. He attacked the case for free trade on political grounds:

> "There are national considerations, Mr. Speaker, that rise far higher than the mere accumulation of wealth, than the mere question of trade advantage, there is prestige, national status, national dominion, and no great nation has ever arisen whose policy was Free-trade."[13]

He went on to make the same case for diversification:

> ". . . no nation has arisen which had only agriculture as its industry. There must be a mixture of industries to bring out the national mind and national strength."[14]

Moreover, he argued, the tariff could be used to strengthen the bonds among the scattered parts of the country.

> "I believe that, by a fair readjustment of the tariff, we can increase the various industries which we can interchange one with another, and make this union a union in interest, a union in trade, and a union in feeling. We shall grow up rapidly a good, steady and mature trade between the Provinces, rendering us independent of foreign trade, and not, as New Brunswick and Nova Scotia formerly did, look to the United States or to England for trade, but look to Ontario and Quebec,—sending their products West, and receiving the products of Quebec and Ontario in exchange. Thus the great policy, the National Policy, which we on this side are advocating, would be attained."[15]

Those Canadians who have had a direct producer interest in commercial policy as participants in either export-oriented or import-competing industries have usually put little emphasis on assertions of the kind expressed in Macdonald's speech. But for those who might be described as the uncommitted, for Canadians in all walks of life including political leaders, historians, journalists and other moulders of opinion, this argument has been the rock on which the case for the Canadian tariff has been founded.

This is not to say that broad political factors provided the staple fare for tariff controversy over the period between the introduction of the National Policy and World War II. On the contrary, in the years immediately following the introduction of the National Policy the Liberal opposition attacked the government for abuses of the tariff system and drew attention to the failure of the economy to respond in the way which had been predicted. In later decades the main bulk of controversy over the tariff has concentrated on its economic effects, particularly its effect on export-

[13]House of Commons Debates, 1878, p. 858.
[14]*Ibid.*, p. 858.
[15]*Ibid.*, p. 861.

oriented industries and export oriented regions. It is nevertheless true that all the crucial turning points in Canadian tariff history during the period, political considerations tended to overshadow economic ones.

Not even the most enthusiastic supporter of the National Policy would describe the process by which it was introduced as involving "a judicious readjustment of the tariff". Prior to his election in 1878 Macdonald is said to have described the principles which his government would pursue in the following terms: ". . . let every manufacturer tell us what he wants, and we will try to give him what he needs." The description given by Tilley of the method used in establishing rates under the National Policy tariff indicates that Sir John's suggestion was followed fairly closely. As Tilley put it,[16] "We did not feel that we were prepared without advice and assistance from men of experience with reference to these matters, to readjust and make a judicious tariff. We, therefore, invited those who were interested in the general interests of the country, or interested in any special interests." What happened has been described by the secretary of the manufacturers association of that day. Meetings were held in Montreal and Toronto and those with interests in a particular industry drew up sets of rates covering their industries. A deputation was then sent from each of these cities to Ottawa and agreement reached on the rates which were to be recommended to the government. They were then presented to the government with the recommendation that they be enacted as they stood. According to the secretary of the association, something close to this actually resulted. With due regard to the tendency of association bureaucrats to exaggerate the influence of their associations on government policy, this may not be a grossly inaccurate description of what occurred. Tilley was away in London for a good part of the interval of four months between the election and the introduction of his budget, and can hardly have spent more than six weeks in supervising the complete revision of the tariff. Given the very limited staff available to a Minister of Finance of that day, it seems likely that there was little or no analysis made of the requests for protection put forward. This method of tariff making naturally brought the whole system into disrepute, and Liberal orators were often hard put to find sufficiently colourful expressions to describe their feelings on protection.

As time passed the economy adjusted to the new higher tariff, and once this adjustment had been made the resistance to major changes became very strong. The question continued to be debated in fairly extreme terms during the '80's and early '90's, and when the Laurier government assumed office in 1896 many of its supporters and opponents expected striking changes to be made. Some reductions were made but instead of a general reversal of policy the new government contented itself with the introduction

[16]House of Commons Debates, March 14, 1879, p. 411.

of the British Preferential tariff. The choice of this relatively innocuous alternative, and the evasion of the central issue of protection versus freer trade was interpreted at the time as indicating that a measure of tariff protection had become the policy of both major political parties. There were significant differences of more or less, and in 1911 and later one party was prepared to go further than the other in negotiating reciprocal tariff reductions with the United States, but throughout the period the hard core of protection in the Canadian tariff remained intact.

5

THE WAR AND POSTWAR YEARS

WITH THE EXCEPTION of the removal of the duties on agricultural implements and agricultural machinery in 1944, few important changes in the tariff occurred during World War II. Indeed, during the war years the tariff was relatively unimportant as a factor influencing trade. As Mr. Ilsley pointed out in his Budget Speech of 1944:[1]

> "For the present, the customs tariff is without any great influence on the scope and direction of external trade. Scarcity of supplies, bulk purchasing, import and export permits, and import subsidies—these are the instruments which determine, for the time being, the extent and pattern of world trade."

During the early postwar years, large-scale negotiations were conducted, notably at Geneva in 1947 and Torquay in 1950-51, which led to an exchange of tariff reductions among the participating countries and involved changes in many Canadian tariff rates. This process virtually came to an end with the implementation of the Torquay reductions in 1951. From then to the present, few changes of importance have occurred. A few rates have risen during the period and a few have fallen, with some minor reductions resulting from the GATT negotiations carried on in Geneva in 1956.

In the past, periods of tariff changes have tended to be periods of considerable tariff controversy, while years of tariff stability have often been characterized by an absence of active controversy. During the last decade the normal relationship has been virtually reversed. During the early postwar years when tariff reductions were taking place, there was little public debate on commercial policy. On the other hand, over the last four or five years when the tariff has been relatively stable, interest in this area of policy making has been much more intense. In large measure this is a reflection of underlying economic conditions. Postwar shortages, trade and exchange restrictions, the inflation associated with the Korean rearmament boom and the 1949 devaluation of the Canadian dollar made the period from 1946-51 a rather abnormal one. It is only in the last few years that import-competing industries have begun to feel the force of world compe-

[1]Budget Speech, delivered by the Hon. J. L. Ilsley, Minister of Finance, June 26, 1944, p. 16.

tition, and when the recession of 1953-54 superimposed additional problems of adjustment, a number of industries began to display a greater interest in the tariff than at any time in the preceding 15 years.

The Level of the Tariff 1939-55

As in the case of earlier periods a beginning can be made by looking at the way in which the ratios of duty collected to imports have changed over the period. Since some interest attaches to the question of how the present tariff compares with that of previous periods, the ratios for some earlier years have been included in Table 5.

Table 5

TARIFF RATIOS, CANADA,
SELECTED YEARS, 1870-1955

Year	Ratio of duty collected to total imports	Ratio of duty collected to dutiable imports
1870	14.1	20.9
1880	20.2	26.1
1929	15.8	24.4
1939	13.8	24.2
1946	11.9	21.2
1949	9.1	17.4
1953	10.2	18.6
1954	10.2	18.1
1955	10.2	18.2

The warning given in earlier chapters on the limited meaning of these ratios is applicable here; the ratios point the direction of the change but are an inaccurate measure of the extent of the change. The level of the tariff has certainly declined since 1939. A number of rates have been reduced, and specific rates which have remained fixed have had their incidence reduced very considerably by price increases. Many of the reductions have affected goods not produced in Canada and have therefore had no effect on protection. Other reductions have had a slight—or, in a few cases, a fairly significant—effect on protection. Because the ratios reflect reductions in revenue rates as well as shifts in the origin of imports and changes in the composition of trade, they do not accurately measure what might be called changes in the over-all level of protection. The ratios show a decline of about 25% between 1939 and 1955, but few of the important protective rates of the Canadian tariff have been reduced to this extent, while others have not been reduced at all.

The way in which this divergence between the ratios and the important protective rates develops can be explained in the following way. If the ratio of duty collected to total imports had been as high in 1953 as in 1939, import duties would have totalled $605 million instead of $449 million, a difference of over $150 million. The fall in duties collected was partly

the result of a shift in trade toward items bearing very low rates or free rates (crude petroleum, military aircraft), and partly due to a fall in the ratios of duty collected to total imports for a few major commodities. If the 1939 ratios had prevailed in 1953, the following additional duties would have been collected.

Table 6

POSSIBLE ADDITIONAL DUTIES, 1953

	Millions of dollars
Coal	23
Machinery (except agricultural)	12
Electrical apparatus	10
Vehicles (chiefly iron)	9
Engines and boilers	7
Fresh fruits	7
Coffee	6
Distilled beverages	5
Nuts	4
Farm implements and machinery	4
Wood and manufactures of wood	4
Petroleum	4
Household equipment	4
Glass	3
Tea	3
Synthetic textiles	3
Fresh vegetables	2
Cocoa	2
Grain	2

It is evident from Table 6 that changes in the ratios of a few commodities played a major role in changing the total ratio. Many of the changes related to such commodities as coal, distilled beverages and food items which are covered by specific rates, and a substantial contribution was made by price increases. For example, between 1939 and 1953 the ruling rate on coal fell from 75¢ per ton to 50¢ per ton with free entry given for some end-uses which had received drawbacks in 1939. This is not a very striking reduction in the tariff, but in the interval the average price of imported bituminous coal increased from $1.80 per ton to $4.76 per ton, while at present a quarter of total imported coal enters free rather than receiving a drawback. The ad valorem equivalent on dutiable imports of coal has fallen from 41% to 10.5% as a result of a reduction in the rate by one third and an increase in the price of 160%. In the case of anthracite, which is less important in terms of both volume and value, the fall in the rate on United States imports from 50¢ per ton to free, reduced the ad valorem equivalent from just over 15% to zero.

Price increases also had a marked effect on the ad valorem equivalent of the specific rates on food items. The price of green coffee increased from an average of 9¢ per pound in 1939 to 54¢ per pound in 1953, while the MFN rate was reduced from 3¢ per pound to 2¢ per pound. As a result

of these changes and some shift in the origin of imports, the ratio of duty collected to total imports fell from 14.0% to 3.3%, and the ratio of duty collected on dutiable imports from 36.1% to 3.8%.

Items bearing ad valorem rates were, of course, unaffected by price changes. In some cases the fall in the ratios mainly reflects a cut in rates. For examples, the most important machinery rates were cut in 1951 from BP Free, MFN 10%, to BP Free, MFN 7½% and from BP 10%, MFN 25% to BP 10%, MFN 22½%. This accounted for the major part of the fall in the machinery ratio, although an additional factor of some importance was the rapid rise in the import of well-drilling equipment which enters free. Between 1939 and 1953 rates were also reduced on electrical apparatus, farm implements, and some items of household and personal equipment. Some of the ratios of groups bearing ad valorem rates were significantly reduced by a shift in the composition of trade or in the origin of imports. For example, almost all of the change arising in the engine and boilers' ratio can be traced to the inclusion in this item of trade of a large volume of aircraft engines entering on a Free basis. In the case of vehicles a shift in the origin of imports with a higher share of automobiles entering from the United Kingdom under a Free rate significantly affected the ratio.

Enough has been said to show the variety of factors which tend to influence the ratio of duty collected to total imports, and a similar analysis could have been made of the ratio of duty collected to dutiable imports. Even if the whole decline in the ratios could be accounted for simply in terms of either direct or indirect changes in tariff rates, this would not mean that there had been an equivalent fall in the protective effect of the Canadian tariff. A change in the rate on an item which cannot be produced in Canada has an effect on revenue, but in most cases only a very minor effect on protection. Similarly, a change in a rate which is not being fully utilized may have a relatively insignificant effect on either prices or the allocation of resources. The effect on prices and the allocation of resources is the principal test. Unless the reduction of a tariff rate lowers prices and pushes resources out of that segment of the domestic industry producing the commodity, or discourages the entry of resources into that portion of the industry, or stimulates improvements in productive techniques and management, then the rate change has not reduced the protective effect of the tariff.

Looked at from this point of view the record of Canadian tariff reductions since 1939 is, at first glance, not very impressive. Considering the efforts devoted to major tariff negotiations at Geneva and Torquay this may seem a rather paradoxical conclusion. It is interesting to note however, that some students of the American tariff have reached a similar conclusion for the United States. For example, Professor Jacob Viner, testifying before the Subcommittee on Foreign Economic Policy in 1955 on the part played by the United States in liberalizing trade since 1934 said:

"As I see it, the most important contribution the United States has made in this particular area is not the reductions of trade barriers we have made, because I am not sure that we have made very significant reductions, but the fact that we have reversed a tendency to move toward more severe trade restrictions, merely avoiding evil can be of great virtue, however."

A search through the record of Canadian tariff changes in this period reveals only a limited number of reductions which have had a significant effect on the prices and competitive conditions facing protected industries. The 2½% reduction in a number of cotton textile and clothing rates, and the significant fall in the ad valorem equivalent rate on printed cotton fabrics arising from price increases and the consequent shift to a higher value bracket has had a material effect, as have the 2½% cuts in the main machinery rates. The ad valorem equivalent rate on woollen fabrics from the United Kingdom fell substantially. The adoption of free trade in farm implements and machinery in 1944 was significant, although rates on many of these items were very low as early as the 1920's. The reductions in the rates on electrical goods, railway rolling stock, synthetic textile fabrics and clothing and a number of less important goods have probably had an effect on prices. While it is difficult to point to a large number of reductions which have had a fairly direct impact, it is nevertheless true that a high proportion of the important items in the Canadian tariff have had 2½%, or in some cases 5%, shaved off the top of their MFN rate. Reductions in these cases have had a preventive rather than a curative effect on resource misallocation, but the importance of this should not be underestimated. The extension of the tourist exemption in 1950, which permitted returning Canadians to bring in $100 worth of merchandise once every four months rather than once a year, must be included among the important postwar changes. Mention should also be made of the important changes in Canadian customs laws and administration. This subject will be discussed in some detail in Chapter 10, and it is perhaps sufficient to point out here that a significant liberalizing of administrative protection occurred during the period.

The final conclusion suggested on the tariff changes since 1939 is therefore a mixed one. The ratios of duty collected to total or dutiable imports tend to exaggerate the extent of the reduction in the protective effect of the Canadian tariff. Similarly, the amount of attention given to efforts to achieve freer world trade sometimes leaves the impression that very considerable changes have been made in the tariff since 1939. This is also misleading. Many of the changes in the Canadian tariff, as in the tariffs of other countries, have had some element of window-dressing about them. Even given all these qualifications, however, it can be said that some of the protective effect of the Canadian tariff has been whittled away by the

price increases, rate reductions and changes in customs administration of the war and postwar years.

A comparison between the present tariff and that of 1939 is in some respects less meaningful than a similar comparison between the present tariff and that ruling in the late 1920's. It is of some interest to see how things stand now as compared with a period of peacetime prosperity predating the hectic period 1930-45. While long-term comparisons of this kind are of limited meaning, it can be said that a number of important protective rates in the Canadian tariff are lower now than in the late '20's, while few are higher. A comparison has been made between the 1928 tariff (after the Budget changes of that year) and the tariff ruling in 1954. Since the General tariff applied to imports from the United States in the earlier period and the MFN tariff at present, the comparison is best made between the General rates in the 1928 tariff and the MFN rates in the 1954 tariff in considering American imports.

A comparison of the textile and clothing schedules indicates that in this sector there have been both increases and decreases. Rates on imports from the United States of cotton yarn and of grey and bleached cotton fabrics are down from 25% to around 20%, from 32½% to around 20% for printed cotton fabrics, and from 35% to 25% for cotton clothing. Rates on synthetic fabric imports from the United States have risen from 35% to 38.5% (ad valorem equivalent) while synthetic clothing rates have fallen from 37½% to 27½%. Taking these rates together there has clearly been a decline in the textile and clothing tariff applied to imports from the United States. The picture is somewhat more mixed in the case of the United Kingdom. Rates on grey and bleached cotton fabrics from the United Kingdom have increased 2½%, while the rate on cotton clothing has gone up from 22½% to 25%. Similarly the rate on synthetic textile fabrics has risen; the not-otherwise-provided-for (n.o.p.) rate going from 17½% to 22½%. On the other hand, the rate on imports of printed cotton cloth fell from 22½% to 17½%, and the rate on synthetic textile clothing from 30% to 20%. Moreover, all the important rates on woollen imports from the United Kingdom have declined. The rate on woollen fabrics from the United Kingdom has declined as a result of the specific maximum feature introduced in 1938; the n.o.p. rate in 1928 was 27½% while the ruling rate in 1954 was under 14%. The rate on woollen clothing from the United Kingdom which in 1928 was 27½% has fallen to 25% and on knitted wool goods from 27½% to 20%. Since woollens outweigh cotton and synthetic items by a considerable margin in United Kingdom trade, a summing of these positive and negative changes indicates a decline of the textile and clothing tariff applied to imports from the United Kingdom. Putting together these results for the two countries which supply well over 80% of manufactured textile imports, it is evident that protection to the textile and clothing industry is lower today than in 1928.

A similar conclusion is suggested by other comparisons which do not involve so many rates. The rates on manufactures of iron and steel n.o.p. were BP 20%, Gen. 30% while the present rates are BP 10%, MFN 22½%. The n.o.p. rates on machinery were formerly BP 15%, Gen. 27½% while the present rates on machinery of a class or kind made in Canada are BP 10%, MFN 22½% and on machinery not made in Canada, BP Free, MFN 7½%. The most common MFN rate on electrical goods is now 22½% while the Gen. rate on goods of this kind was 27½% in 1928. The automobile tariff is so complex that it is difficult to measure changes. The ordinary rates are lower today than in 1928. The prevailing rate on automobiles (under $1,200) from the United Kingdom was 12½% in 1928 and is now Free. The rate on automobiles (under $1,200) from the United States was 20% in 1928 and 17½% in 1954, but in the earlier period provisions for the free entry of parts were not as generous as they became in later years, and this limited the protection available to automobile manufacturers. In 1928 the automobile industry enjoyed extra protection from a 5% excise tax levied on imported cars, but there was no prohibition on the entry of used cars. It is generally thought that if the ordinary rate on automobiles had applied to used cars, the Canadian new-car industry would have faced competition from used cars from the United States. Rates on furniture have declined from BP 20%, Gen. 30% to BP 15%, MFN 25%. The BP rate on boots and shoes has risen from 17½% to 20% but the MFN rate is now 27½% as compared with a Gen. rate of 30% in 1928. Many other rates show a decline of 2½% or 5% below the 1928 level, although there is one important exception. Rates on the basket item 711 in 1928 were BP 15%, MFN 17½%, Gen. 17½% and are now BP 15%, MFN 20% or a rise of 2½% on all imports from other than preferential countries.

From the above analysis it is evident that the average level of the Canadian tariff is below that of 1939 and also below that of the late 1920's. Since the tariff of the late 1920's is generally thought to represent a slight decline from the tariff of the decade prior to World War I, and the pre-World War I tariff a decline over that prevailing in the post-National Policy decades of the nineteenth century, it is not inaccurate to say that present tariff rates are generally somewhat below the historical level.

British Preference 1939-56

The ideal trading world envisaged by the provisions of the General Agreement on Tariffs and Trade is a non-discriminating multilateral trading world in which trade barriers are restricted to moderate tariffs applying equally to all. When the General Agreement was being negotiated it was found that countries with deeprooted preferential systems were not prepared to dismantle them either immediately or over any short period in the future. It was therefore agreed that countries should not be required to

eliminate preferences, but that steps should be initiated to reduce their importance in international trade. In 1947, by an exchange of letters, Canada and the United Kingdom unbound all margins of preference extended to each other and the way was thus cleared for negotiation of preferences. When introducing the results of the Geneva negotiations of 1947, Mr. King said:

> "The basic principles of agreement at Geneva on preferences were: No new preferences were to be created; no existing preferences were to be enlarged; preferences remaining in effect were to be negotiable; that is to say, they were to be capable of being reduced or narrowed by negotiating with foreign countries in return for concessions to one, or other (or both) of the preference parties."[2]

Since the same principles have been followed in the period since 1947 it might be thought that by now this process has reduced preferential margins well below the traditional level. A comparison between the present situation and that prevailing in the late '20's suggests that in general this is not so, although in the case of some important commodities preferential margins have narrowed. Table 7 shows the ratios of duty collected to total imports for the United Kingdom and the United States. Because very high duties levied on alcoholic beverages (largely offset by domestic taxes) bulk large in the duties collected on British imports they have been omitted.

Table 7

CANADIAN TARIFF RATES ON U.K. AND U.S. IMPORTS, SELECTED YEARS, 1926 TO 1953

	Ratios of duty collected to total imports	
Year	**U.K.**	**U.S.**
1926	14.0	13.3
1928	13.8	13.5
1939	7.3	13.0
1953	5.4	10.3

For what they are worth, these general averages suggest that British goods enjoy a wider margin of preference now than they did in the 1920's, while rates on both British and American imports have fallen since 1939. Although the average margin of preference appears to have widened since 1928, there have been diverse movements in particular rates. For example, margins of preference on cotton textiles have narrowed, rates on British goods rising while rates on American imports have declined. Similarly, in the case of a number of rates on electrical goods, margins of preference have declined as a result of a fall in the rate on American imports while BP rates remained stable. The BP rate on engines and boilers has remained fixed at 15% while the rate against the United States has declined

[2]Rt. Hon. W. L. Mackenzie King, Dec. 9, 1947, *Hansard Session 1948*, Vol. 1, p. 102.

from 27½% to 20%. In some cases the margin of preference is the same today as it was 30 years ago. This is true of one of the main machinery items, 427a, machinery of a class or kind made in Canada. The BP rate has fallen from 15% to 10% while the rate on American imports has fallen from 27½% to 22½%, the margin remaining unchanged. At the same time the margin on machinery of a class or kind made in Canada has narrowed from 12½% to 7½%. On some items the margin of preference has widened dramatically. This is true of automobiles, where the main rate on British imports has fallen from 12½% to Free, while the intermediate rate has remained unchanged, and the rate on United States imports fallen from 20% to 17½%. This has also been the case with china tableware. The BP rate has fallen from 15% to Free while the MFN rate has only declined from 27½% to 25%. A wide margin of preference has also developed in woollen fabrics as a result of the specific maximum provision included in the British Preferential rate. In other cases increases in margins have been minor. For example, a 2½% margin in the basket item 711 in 1928 has increased to 5% in the present tariff.

The general conclusion which all this suggests is that while many margins of preference have been narrowed during the postwar negotiations, the preferential margins which remain on a number of commodities[3] are still significant and in some important cases substantially higher than they were before the changes introduced by the Ottawa agreements. Preferential rates are, of course, relatively less important at present when only 9% of Canadian imports come from the United Kingdom, than they were 30 years ago when this proportion was almost twice as high.

Reciprocity 1939-55

In the latter part of the 1930's Canada dealt directly with its main trading partners, and the important agreements made were negotiated in Ottawa, Washington and London. In the postwar period the pattern has changed with negotiations being carried on under the provisions of the General Agreement on Tariffs and Trade with many countries participating. This does not mean that Canada's trading interests have shifted and that concessions have been mainly sought from other countries. On the contrary, both at Geneva in 1947 and Torquay in 1950-51 Canada was primarily interested in improved access to the American market. To some extent, the method of negotiation limited Canada's power to obtain American concessions. The so-called principal supplier rule, which provides that countries should negotiate rate concessions on particular commodities with the country which supplies the major share of imports, left Canada in the position of negotiating concessions mainly on primary products; and in effect placed the responsibility for securing American concessions

[3]In 1951 there were 2,038 items and sub-items in the Canadian tariff, for 1,450 of which BP rates were lower than MFN rates. Evidence before the Standing Committee on Banking and Commerce, May 9, 1951, pp. 41-42.

on most manufactured goods in the hands of other countries. In many cases these countries made less use of their opportunities than they might have done, and the concessions from the United States were correspondingly reduced. It would be grossly inaccurate to say that the two main GATT negotiations were primarily important because they permitted Canada and the United States to exchange tariff reductions, but at both Geneva and Torquay the Canada-United States agreements were the ones which had first priority for both Canada and the United States, and were clearly the major agreements reached at the conferences. Thus, while there have not been any reciprocal agreements of the traditional kind between Canada and the United States since 1938, important reciprocal reductions in tariffs have been made under the GATT arrangements.

It would appear that an opportunity for a large-scale reciprocal trade arrangement of the type frequently discussed in Canadian tariff history did arise once during this period. Such an arrangement seems to have been a practical possibility and under active consideration as recently as 1948. No official information has yet been released on this matter; but if credence can be given to the reports circulating in the press in 1948 and 1949, it would seem that the prospects for continental free trade were more favourable in 1948 than at any previous time since Confederation.

The economic conditions of the period set the stage. In 1947 Canadian foreign exchange reserves fell rapidly, and that November an emergency programme of trade and exchange restrictions was introduced. In retrospect it seems fairly clear that a combination of Canadian lending abroad, a domestic boom and a fixed exchange rate led to a loss of foreign exchange, and that given a change in policy, the drain on the reserves could be halted. It was understandable, however, that under the pressure of immediate problems there was a good deal of concern about the long-term prospects and a willingness to consider fundamental changes in trade policy. Thus, when references were made in the American press to the possibility of a customs union between the United States and Canada, the question was taken up by Canadians and widely discussed throughout the country. The tenor of this discussion suggested that there was something in the wind, but it was not until 1949 and 1950 that much appeared in print to the effect that discussions had taken place between the two governments. It was then reported, that following the Geneva talks of 1947, exploratory negotiations had been held between Canadian and American officials with a view to determining the broad lines along which a free trade area agreement between Canada and the United States might be developed.

A free trade area, as distinct from a customs union, enables the participating countries to retain their own tariffs against third countries, and therefore involves some test of the origin of imports in trade between the parts of the free trade area. A clause permitting this sort of arrangement

was included in the Havana charter and later embodied in the GATT provisions. To take advantage of this exception it was not necessary to abolish immediately all restrictions on trade between the two countries. The provisions only required that subject to a variety of exceptions, duties and other restrictive regulations of commerce should be eliminated "on substantially all the trade between the constituent territories in products originating in such territories". The period of transition could be an extended one, and the system of import controls then ruling in Canada could in fact have served a useful purpose in enabling the necessary changes to be carried out step by step.

Of course, trade negotiations with the United States in the past reached the stage of executive agreement and yet came to nothing on failing to secure the approval of Congress. In 1948 there was evidence of bi-partisan support in the United States. The discussions were being carried on with a Democratic administration, and in response to a query from Newfoundland in the spring of 1948, the leading Republican Senator, the late Robert A. Taft was reported to have said: "I would favor the kind of economic union that means complete reciprocal freedom of trade—and I would do the same for Canada." As things turned out, the issue of congressional approval never arose. According to press reports the Canadian government decided not to follow up the initial exploratory discussions and there the matter ended.

Revenue, Protection and the Tariff 1939-56

It has been pointed out in earlier chapters that throughout Canadian tariff history, the revenue aspects of the tariff have played a role of some importance in the determination of policy. This is a factor which has now diminished in importance as the budget has grown and alternative methods of taxation have developed. It is true that the $400 million-odd of customs revenue still represents a very substantial sum, equalling around 10% of federal government receipts; but where formerly the financial position of the government often depended upon the height of the tariff and the level of imports, this is now no longer the case. From the point of view of those responsible for the budget, the tariff is now a traditional and accepted source of revenue and nothing more. Budget speeches no longer contain extensive analyses of the revenue consequences of tariff changes, and this factor no longer plays any significant role in the determination of tariff policy.

The same cannot be said of protection. It is true that for the period under review the general trend in tariff rates was downward, and it is also true that for most of the period there has been a fairly constant policy of no tariff increases. But this does not mean that there was any serious departure from a policy of protection for Canadian industries. Most tariffs contain a good deal of water; that is, they contain many rates which, because

of their height or the products they cover, can be reduced without a significant effect on protected industries. Under these circumstances, it is possible to carry on tariff negotiations with other countries, give concessions involving hundreds of rates without significantly affecting the prices and competitive conditions facing protected industries. This is sometimes described as "squeezing the water out of a tariff". This process cannot go on indefinitely. After a time rates which can be cut with impunity become harder and harder to find, and if the process goes on long enough countries are gradually forced into the position of giving concessions which really matter. There are those who hold that the prewar agreements and the two major GATT negotiations at Geneva and Torquay largely exhausted the easy tariff reductions, and that by 1951 the Canadian tariff was beginning to approach a point where most reductions would have a significant impact on protected industries. Some of the results reached in the chapters which follow suggest that there is still a good deal of room for manoeuvre in the rates applying to many industries, but there are certainly other industries in which a reduction in the tariff would lead directly to a fall in the prices charged for protected goods, and consequential effects on the share of the market supplied by the domestic import-competing industry. Thus, if the United States had continued to show a willingness to offer substantial tariff concessions, continued participation in GATT negotiations might well have led to controversy in Canada.

As things turned out, 1951 marked the end of one period of postwar commercial policy, just as the last year or so may come to be regarded as ushering in still another phase. United States tariff reductions on any scale virtually came to an end in 1951. No new authority was obtained for further reductions until 1955 and this only permitted the American administration, subject to a number of qualifications, to reduce rates by 15% and reduce rates of over 50% to 50% with the reductions spread over a period of three years. With the enactment of the 1955 legislation, the previous authority which permitted 50% reductions of the 1945 rates was withdrawn. A power to reduce the American tariff which was as limited as this came very close to being no power at all, and while Canada participated in the Geneva negotiations of 1956 and a number of concessions were given and received, not a single key rate of the Canadian tariff was reduced as a result. Thus, for a period of five or six years following 1951, the direction and leadership of the movement toward freer world trade which had formerly been given by the United States was not forthcoming. This does not mean that the period from 1951 to 1956 was merely one of stalemate. Western European countries made considerable progress in reducing restrictions on both trade and payments among themselves, and, to a lesser extent, with countries outside Europe. This is a continuation of an effort which in the years prior to 1951 had been going forward concurrently with the efforts to free trade on a fully multilateral basis. With

the introduction of proposals for a common market among six countries —Belgium, the Netherlands, Luxembourg, France, Germany and Italy— and the European Free Trade Area embracing the six and other countries including the United Kingdom and the Scandinavian countries, a new period has been introduced in which it appears that regional arrangements will predominate to an even greater extent than in the recent past.

PART III

THE ECONOMIC EFFECTS OF THE CANADIAN TARIFF

6

THE EFFECT OF THE TARIFF ON PRICES

THE CANADIAN economy has developed under the influence of two sets of restrictions on trade; the set imposed by Canada, and that imposed by other countries. As already indicated, these two sets of restrictions are by no means independent of one another. It is true that a reading of tariff history suggests that, in the first two or three decades following Confederation, Canadian tariff policy had little or no effect on the tariff policy of its major trading partners, the United Kingdom and the United States. The United Kingdom continued throughout this period to follow a policy of free trade and changes in the Canadian tariff brought no response. The United States was almost equally unaffected by Canadian tariff policy, reacting to neither increases in the Canadian tariff nor overtures looking to reciprocal tariff reductions. Under such conditions as these, there would be some justification for analyzing the economic effect of the Canadian tariff in isolation, since changes either way appear to have had little effect on the barriers confronting Canadian exports.

As pointed out earlier, this situation began to change toward the end of the nineteenth century, and in the first half of the twentieth century opportunities presented themselves for securing a substantial reduction in the American tariff on imports from Canada as a by-product of a reduction in the Canadian tariff. Indeed, this is the only way in which the issue of protection versus freer trade has ever arisen in Canadian tariff history, and it can be predicted with some confidence that this is the only way it is likely to arise in the foreseeable future. It is almost inconceivable that the Canadian tariff would ever be reduced to zero without a very substantial reduction in American restrictions on Canadian exports; and possibly reductions in the restrictions imposed by other countries.

In estimating the economic effect of the Canadian tariff, therefore, there is little point in an elaborate analysis of the effect of its unilateral removal, since this is a possibility which has little, if any, practical relevance. On the other hand, there is something to be said for attacking complicated problems in a piecemeal fashion and this will be the method used in this

chapter. Our problem is that of estimating the total economic effect of the Canadian tariff, when full account is taken of both the direct impact on the Canadian economy and the direct effect through repercussions on the commercial policies of other countries. A start can be made on this question looking first at the direct impact of the tariff on the Canadian economy, postponing until later in the chapter a consideration of indirect effects.

Tariffs and Subsidies

Before turning to a consideration of the economic effect of the Canadian tariff, it may be worthwhile to consider briefly a few simplified examples involving subsidies and tariffs which will illustrate the method of analysis used in this chapter.

Consider a free trading country which decides to promote the domestic production of an imported commodity, household brooms. Brooms, we shall assume, can be imported from abroad at a price of $1.00, but due to a variety of factors cost $1.25 to produce at home. In a normal year the country produces no brooms but imports one million from abroad. Now the government offers to pay a subsidy of 25¢ a broom to anyone who will undertake this type of production. Firms are attracted to the industry by the subsidy and after a period of adjustment the entire requirement of brooms is satisfied internally. Consumers still purchase one million brooms at a price of $1.00, but domestic producers receive an additional 25¢ a broom from the government. The government raises extra tax revenues of $250,000 to pay the subsidy, and this reduces the expenditure of taxpayers on other commodities. The $1.25 received by domestic producers just compensates them for the cost involved in domestic production, and factors of production employed in the new industry receive rewards which are in line with those paid in alternative industries.

What has been the economic effect of the subsidy? Quite clearly, it has had an effect on the structure of the economy. An industry which would not exist otherwise has been brought into existence, and since we are assuming full employment of resources both before and after the change, some other industries have been forced to contract. If we also assume that imports and exports remain in balance, one can think of resources which earned $1 million in export industries, and other resources which earned $250,000 in other industries, as having been transferred to the new industry in which they continue to earn around $1,250,000. On the face of it, the change has not been a beneficial one to the economy as a whole. Prices have remained unchanged but the taxpayers are required to foot an annual bill of $250,000. This represents the cash cost of the subsidy, that is, the cost to the taxpayers of making a money payment to the industry. Under the assumptions of this example this is also the economic cost of the subsidy, that is, the amount by which the real income of the community (measured in a conventional statistical way) is reduced by

the subsidy. Resources which formerly were paid $1,250,000 and produced goods selling on an open market for $1.250,000, now produce goods which can be obtained elsewhere for only $1 million. The loss to the economy comes from the fall in the *real* productivity of the resources due to their transfer to an industry for which the country is ill-suited.

A somewhat similar result follows if a tariff is used rather than a subsidy. Given the same initial conditions, assume that a customs duty of 25% is imposed on household brooms and this is effective in completely replacing imports by domestic production. The process of adjustment might be along the following lines. In the new situation consumers must pay a price of $1.25 and as a result they consume fewer brooms; say, 900,000 at a total cost of $1,125,000. Resources which formerly produced $1 million worth of exports, and other resources which produced $125,000 worth of domestic goods, are attracted into the broom industry where after an initial period they receive the same earnings as similar resources employed elsewhere in the economy. Instead of being able to buy 900,000 brooms for $900,000, consumers must pay an extra $225,000 to subsidize the domestic production of a commodity in which the country has a comparative disadvantage. This amount of $225,000 is the cash cost of this protective tariff, that is, the amount which consumers must pay over and above the amount they would have had to pay if they could have bought the same good freely in world markets. The higher price charged for brooms does not lead to higher returns to the labour and capital in the broom industry, but merely provides compensation for higher costs of production. Instead of procuring brooms by producing exports and trading for brooms, the country has now adopted the less efficient alternative of producing brooms directly. This leads to a loss of real income or an economic cost of about the same magnitude[1] as the cash cost of the tariff. The loss to the economy comes from the fact that resources which earned $1,125,000 were transferred from a use in which they produced commodities worth $1,125,000 to a use in which they produce commodities which could be purchased elsewhere for only $900,000. The real productivity of the labour and capital involved falls as a result of their transfer to an industry for which the country is not well-suited. This may not be the whole story. If, as a result of the imposition of the tariff on brooms, other countries decide to impose a tariff on the first country's exports, the economic cost of the original tariff will be a good deal higher than the cash cost.

It is evident that there are some differences in the results depending upon whether use is made of a subsidy or a tariff. In the subsidy case,

[1]The economic cost may not be exactly the same as the cash cost in this case. Consumers now obtain 100,000 fewer brooms than in the free trade situation and in addition must forego $125,000 worth of other goods. The money equivalent of this loss is clearly more than $225,000 and less than $250,000 since the value of brooms is somewhere between $1.00 and $1.25.

the price of the commodity is unaffected and therefore its consumption remains unchanged. In the tariff case the price does change and consequently the consumption is reduced. There is also a difference in the incidence of the burden of the assistance. The subsidy is provided by tax revenue, and the burden in effect prorated among the taxpayers. In the case of a tariff the power to tax is in effect delegated to the industry, and the assistance is provided through an increase in the price of the commodity. It is the consumers of the commodity who pay in this case. There is also a difference in the total impact of a subsidy and a tariff. There is a sense in which a tariff is less expensive than a subsidy. The increase in the price which arises from a tariff discourages the consumption of the protected commodity, and as a result less of it is produced than if a subsidy is used. Since each unit of protected production entails a cost to the economy, the less produced, the lower the total cost.

While these differences in detail may often be of significance in particular situations, it is important that the essential similarity of the two techniques should be recognized. Insofar as a tariff encourages the replacement of imports by domestic production, it has an effect essentially similar to that of a subsidy to an import-competing domestic industry. When a tariff is used the government is not required to raise the revenue to provide the subsidy, and the protected industry is not placed in the position of receiving assistance in a very direct and unmistakable fashion. Since both parties directly involved can minimize their discomfort by using a tariff rather than a subsidy, it is perhaps not surprising that tariffs tend to be the preferred instrument.

Not all tariff rates have the effect of providing a money payment to protected producers. Rates on commodities which are not, or cannot, be produced in the tariff-levying country do raise the price of commodities to the consumers, but may not result in any domestic production at all. The extra cost to the consumers in this case is matched by the extra revenue accruing to the government. Those concerned with public finance problems might well argue that there are better methods of raising revenue, but tariffs of this kind are of limited interest in an analysis of international trade. As pointed out above, almost all Canadian tariff rates are a hybrid breed containing some element of revenue and some element of protection. The general nature of such rates can be illustrated by recurring to the broom example. Suppose that a tariff of 25% was not in fact high enough to eliminate imports entirely, and that 200,000 brooms continued to be imported at a price of $1.00, bearing a customs duty of 25¢. Instead of buying 900,000 brooms for $900,000, consumers pay an extra $225,000, but not all this accrues as a subsidy to the domestic industry. A sum of $50,000 represents customs revenue and only $175,000 represents a subsidy to the domestic industry or the cash cost of the protection. Only 700,000 brooms are produced domestically at a cost of $875,000, with

exports falling by $800,000 and the production of other goods by only $75,000. Consumers now obtain 100,000 fewer brooms than in the free trade situation, and in addition must forego $75,000 worth of other goods rather than $125,000 worth of other goods as in the case when the 25% rate was prohibitive. As might be expected, the less effective a tariff is in excluding imports, the less expensive it is.

The three versions of the broom example which have been given so far have all been highly oversimplified. For example, it has been assumed that the imposition of a tariff will have no effect on the foreign country's selling price. In the case of a small country buying in large world markets this is not unrealistic, but in some cases it may be that the price of imports will be affected. Insofar as this is the case, this will reduce the economic cost of the tariff. If an attempt were made to approximate the real world, increasingly complex examples would be required. Since this would be a rather tedious method of developing the analysis, there is something to be said for moving directly to the present day Canadian economy to see how far the type of analysis developed above can be used to throw light on the economic effect of the Canadian tariff.

The Cash Cost of the Canadian Tariff

If the Canadian government currently used subsidies rather than a tariff to encourage import-replacing production, it would not be difficult to discover the cash cost of the assistance. There would be a definite sum of money passing through the federal treasury each year. Audited accounts would be available and it could be stated with certainty that the cash cost of the subsidy was so many hundred million dollars. For example, this can be done in the case of government assistance to the gold mining industry. In the *Public Accounts of Canada 1955*, a list is given of the gold mining companies which have been assisted, giving the amount which each has received up to March 31, 1955. In the seven years up to 1955 during which assistance has been given, the companies had received $80,764,940 and an additional $3,123,453 was being held in Open Accounts pending final audit. This is the cash cost of gold mining assistance; that is, the cost to the taxpayers as a whole of making a money payment to the industry. Looked at from the production side, it is the amount which the industry receives over and above the amount which it would receive if it sold its output on the market.

Since in general the Canadian government uses a tariff rather than subsidies to assist import-competing industries, an estimate of the cash cost of the Canadian tariff requires a fairly complicated statistical investigation rather than simply a reference to *Public Accounts*. In principle, the methods used in estimating the cash cost of the Canadian tariff are similar to those used in the simplified examples previously given. The estimates can be made from either the expenditure side or the production side. If

measured from the expenditure side, a comparison is made between the amount spent on purchasing the products of protected industries and the amount which the same quantity of goods would have cost if Canadians had been able to purchase freely in foreign markets. Looked at from the production side, the cash cost of the tariff for a particular industry is the amount of extra money payment which accrues and remains in the industry. This can be estimated by first comparing prices and determining the amount which the industry receives for its final products over and above the amount which it would have received if the goods had been sold at world prices. From this amount a deduction must be made for any duties paid on imported inputs, and a further deduction for any extra amount paid for inputs purchased from other protected industries.

The difference between the two methods can be illustrated as follows. Suppose there are two protected industries, one of which produces fabric and the other clothing. Part of the output of the fabric industry is sold directly to consumers and the rest to the clothing industry. The raw materials for fabrics enter free, but fabric and clothing pay rates of 20% and 25% respectively. Substantial quantities of both fabric and clothing are imported. In measuring the cash cost of protection from the expenditure side the following technique would be used. A comparison would be made of domestic and lowest available world prices for final goods entering consumption whether fabric or clothing, and an estimate made of the extra amount paid by consumers because of the tariff. A deduction must then be made for duties paid on the imports of both fabric and clothing. This provides an estimate of the cash cost of protecting these two industries; although with this amount of information no allocation can be made of the cash cost of protection for each of the two industries considered separately. It can be asserted, however, that there is a flow of funds from the consumers of fabric and clothing to the two industries, which is the amount which consumers must pay over and above the amount which they would have paid if they could have bought these goods freely in foreign markets.

An estimate made from the production side requires more information on the interrelations among and within industries. Under the given assumption, a comparison of foreign prices and the selling prices of protected producers of fabric permits an estimate of the cash cost of protection for the fabric industry. For the clothing industry, a comparison would have to be made of clothing prices in the protected market and in world markets. It would also be necessary to deduct from the the costs of the clothing industry not only duties paid on fabric entering into its output, but also the amount which it pays the domestic fabric industry over and above the amount which it would have paid if the fabric could have been purchased freely in foreign markets. Estimates made from the production side can easily result in double counting, since it is always difficult to ensure that full allowance has been made for those inputs of a protected industry which are them-

selves protected. On the other hand, estimates made from the expenditure side likely understate the cash cost of the tariff, since in many cases it is difficult or impossible to take fully into account protected goods which enter into the cost of services.

In general the estimates presented in this chapter have been made from the expenditure side. The information on the interrelations among protected industries was simply inadequate to enable a parallel group of estimates from the production side. On occasion, some reliance has been placed on estimates from the production side, where data on expenditure were particularly limited or unreliable.

In making the estimate of the cash cost of the tariff it has been necessary to obtain prices for the products of Canadian protected industries and to compare these prices with the prices of comparable products available abroad. In most countries it would have been difficult to find many domestic products which were fully comparable with those produced in other countries. Canada is almost unique in that it produces a large number of protected articles which are virtually identical with those produced in the United States, the chief alternative source of supply. In these cases, no serious problems were encountered in ensuring comparability, and the task of collection was eased by the fact that many of the Canadian producers are subsidiaries of American companies. Where a non-standardized commodity such as clothing or custom-built machinery was involved, serious problems arose in ensuring that like was being compared with like.

Ideally, the prices to be compared would be manufacturers' prices in Canada *ex tax* and the price of an identical good laid down at the same point by a foreign supplier *ex customs duty*. In some cases it was possible to obtain prices at the manufacturers' level, but in many cases the only prices available were retail prices, and adjustments had to be made for tax differences, variations in wholesale and retail margins and differences in transportation costs. This has necessarily had the effect of reducing the accuracy of the estimates, and is one of the principal reasons why a fairly generous margin of error has been incorporated in the final figures. In some cases the available price data were so sketchy that use had to be made of inferences drawn from tariff rates and the share of the market supplied by imported goods.[2] For example, if imports paying a duty of 20% supplied

[2]It is perhaps of interest to note that this was the basic method adopted by the authors of a report on the Australian Tariff. They used price data as a check on their estimates rather than as a means to making the estimates. In arriving at their estimates of the excess cost of protected production they divided protected goods into three classes. Class (a) for which imports contribute a substantial portion of the quantity of the goods consumed; Class (b) for which imports are relatively small; and Class (c) goods produced by industries part of whose output is naturally sheltered and part of whose output comes into full competition with imports. As a rough estimate they suggested that the excess cost of home-produced goods for each of these classes would be equal to the following proportions of the duty on corresponding imports:

Class (a) the full amount of the duty;
Class (b) half the amount of the duty;
Class (c) one-third of the amount of the duty on corresponding imports.

The Australian Tariff: An Economic Enquiry, the report of an informal committee composed of J. B. Brigden, D. B. Copland, E. C. Dyason, L. F. Giblin and C. H. Wickens, Melbourne University Press, 1929.

over 50% of the domestic market and the types of goods obtained from abroad were directly competitive with those produced in Canada, there is a strong implication that the price of domestic goods is close to the foreign price plus 20%. In almost every case, some price data were available which could be used to supplement inferences drawn from tariff rates and import shares.

Before turning to the estimate, several special points should be mentioned. First, the year for which the estimate of the cash cost of the tariff was made was 1954. This year was selected as the most recent one for which sufficient information was available; but since the level of output in most protected industries in Canada was lower in 1954 than in 1953, 1955 and 1956, it should be recognized that the estimate for 1954 is lower than would be similar estimates made for any one of the other three most recent years. For some industries the difference is quite substantial. The index of industrial production shows an output for durable manufactures in 1954 which is 8% to 9% lower than either 1953 or 1955. The output of motor vehicles in 1954, however, was 27% lower than in 1953 and 23% lower than in 1955. Similarly, the fall in textile output of around 8% was more pronounced than the slight decline in non-durable manufactures.

It should also be pointed out that the estimate is not a comprehensive one but relates only to the private sector of the economy; that is, governmental purchases are omitted. This is a serious omission, since governments are not only heavy purchasers from protected industries, but under existing methods of government procurement they give an additional preference to domestic producers. A standard clause which is written into all federal government contracts or specifications reads in part as follows:

> "To the full extent to which the same are procurable, consistent with proper economy and the expeditious carrying out of this contract, Canadian labour, parts, and materials shall be used in this work."

The way in which this clause is interpreted in effect raises an additional barrier against foreign suppliers, and if a satisfactory comparison could be made of the prices paid by governments and the prices which would have been paid if the supplies had been obtained at the lowest available world prices, the effect of the tariff and the buy-Canadian preference could be measured. In some such cases as military aircraft and ships, a comparison of this kind is extremely difficult since it is not possible to find fully comparable products available abroad. In other cases where a comparison could be made the required information was lacking. For this reason, it was decided that this sector of expenditure should be omitted from the main estimate. Some indication will be given later of the quantitative significance of this omission.

Another portion of the cash cost of the tariff which has been omitted is that part arising in the distributive sector. It is generally assumed that

most services are unaffected by international trade, and it is usually thought that wholesale and retail trade can be classed with this group. In the case of a comparison between the United States and Canada, such an assumption is not warranted. It has been found that in some instances the absolute size of distributive margins is greater in Canada than in the United States, and where this applies to goods which can be readily transported, it appears that the tariff plays a significant part in perpetuating these differences. For example, a comparison of list prices suggests that distributive margins in dollar terms are substantially higher in Canada than in the United States for electrical appliances, automobiles and trucks. In all three cases it is known that substantial discounts from list prices have been the rule in both countries, and since it has not been possible to carry out a detailed comparison of the distributive margins actually ruling in the market, an estimate of the part played by the tariff in influencing these margins could not be made. In the case of a number of less important dutiable items, including smoking tobacco, watches, detergents, cotton sheets and some types of clothing, the distributive margins ruling in the market were higher. An attempt could have been made to include an allowance for these items but it was thought that it would be better to treat this aspect of protection separately.

There is a further factor which requires consideration. In general, the price comparisons have been restricted to Canada and the United States; although where it was obvious that the cheapest source of supply was a country outside North America, price comparisons have been made between Canada and that country. There are some less obvious instances, however, where foreign countries might be of some significance as suppliers and their inclusion in the price comparison would have widened the gap between the Canadian protected price and the lowest available world price. It has not been possible within the scope of this study to obtain price data for overseas countries comparable in quality to that obtained for the United States, and this has meant that they have not been fully represented in the price comparisons. This factor, together with the others noted above, has tended to give the final estimate of the cash cost of the tariff a distinct downward bias.

There are a number of special cases which have required individual treatment. For example, the domestic price of butter in Canada in 1954 was set by the Agricultural Price Support Board at 58¢ a pound (delivered in Montreal). This price was 14¢ a pound above the price of New Zealand butter landed in the United Kingdom. Since there was a virtual prohibition on the entry of butter from abroad, it might be argued that the whole difference between the actual Canadian price and the price which would have ruled if there had been free entry of butter should be regarded as the cash cost of the prohibition. The agricultural price support programme is not primarily an instrument of commercial policy, however, and it would

be inappropriate to include this element of the enhanced price in an estimate devoted to the cash cost of the tariff. An attempt has therefore been made to separate the effect of the price support and the prohibition.

Sugar also posed a special problem. The evidence shows that part of the extra amount paid by Canadian consumers for refined sugar accrues to producers of raw sugar in British Preferential countries. This is not the only commodity affected in this way by the preferential tariff, but it is the most important one. Since the estimate is concerned with the over-all cash cost of the Canadian tariff, no distinction has been made between that part of the extra amount paid by Canadian consumers which accrues to domestic producers, and that part which accrues to producers outside Canada.

The case of coal posed a problem of classification. Existing legislation provides a freight subvention to equalize the prices of domestic and imported coal.[3] Since this can be regarded as an alternative to a higher tariff on coal, it would appear that it should be included in the cash cost of the tariff. On the other hand, the assistance given to the coal industry, like that extended to the gold mining industry, is probably best regarded as a form of regional assistance rather than protection and for this reason has been omitted from the estimate. The payments made in the fiscal year 1953-54 amounted to $9.9 million and in the fiscal year 1954-55 to $11.8 million, and those who prefer to regard this subsidy as essentially protective in nature can make the necessary upward adjustment of the total estimate.

Table 8

ESTIMATED CASH COST OF THE CANADIAN TARIFF IN 1954 BY CATEGORIES OF EXPENDITURE

	Million of dollars
1) Food	90 - 95
2) Tobacco products	30 - 35
3) Alcoholic beverages	9 - 11
4) Recreation and reading	10 - 12
5) Clothing, footwear and personal furnishings	95 - 110
6) Household furnishings and operations	95 - 110
7) Household electrical appliances, radios, TV sets	34 - 38
8) Personal care	13 - 14
9) Medical, dental, pharmaceutical	27 - 30
10) Gasoline and oil	9 - 11
11) Automobiles	72 - 105
12) Construction	77 - 92
13) Machinery and equipment[a]	100 - 150
Total	610 - 753

[a]Estimated by the use of tariff rates, market shares and information on prices and output drawn from other Commission studies.

[3]In addition, there is a subsidy to equalize the prices of domestic and imported coal used in the iron and steel industry.

There were other special cases; these are discussed in Appendix A which provides a detailed description of the estimates. It will be seen that in some instances arbitrary decisions were unavoidable, and some conclusions had to be drawn on the basis of very limited information. These have contributed to the margin of error which has been built into the estimates. In doubtful cases the judgments made have all tended to understate rather than overstate the cost of the tariff. It is likely, therefore, that while the range probably embraces the correct total, the true figure is close to the top of the interval.

The cash cost of the Canadian tariff, omitting government expenditure and making no allowance for the effect of the tariff on distribution costs, amounts to \$0.6 billion to \$0.75 billion or about 3.5% to 4.5% of gross private expenditure net of indirect taxes. The inclusion of government expenditure and retail distribution would raise the estimate considerably, and it is likely that a comprehensive estimate of this kind made for 1956 would be of the order of \$1 billion.

7

THE EFFECT OF THE TARIFF ON CANADIAN INCOME

THE ANALYSIS of the previous chapter was concerned with the direct effect of the Canadian tariff on the prices of protected goods. The estimates made referred to the cash cost of the tariff. This is an accounting magnitude rather than an economic one. It is simply a mechanical measure of the difference in the amount paid for protected goods, and the amount which would have been paid if these goods had been purchased at the lowest available world prices. Given enough information, personnel and time, the cash cost of the Canadian tariff could be determined within very narrow limits. It might seem that this kind of calculation is all that is required. In analogous cases, little attempt is made to get behind the accounting magnitudes. When the question is raised on the cost of agricultural price supports or railway deficits or defence, the questioner is usually satisfied with an answer expressed in terms of cash outlays. In all these cases the economic cost of expenditures of this kind viewed from a national standpoint may diverge from the cash cost. That is, the reduction in the real income of the community as a whole may be either greater or less than the apparent reduction arising from the cash outlay. Needless to say, the step from cash outlay to economic cost is conceptually harder to make than the initial calculations. Estimates of cash outlays can ordinarily be made from sets of accounts, but if allowance is to be made for all the direct and indirect effects of particular measures, then, in general, it is necessary to fall back on economic analysis. This chapter will be devoted to a discussion of some of the difficulties in moving from the cash cost to the economic cost of the Canadian tariff.

This is a topic which has received a good deal of attention from economists, but since it lies at the heart of the controversy on freedom of trade it is not a question on which it is easy to obtain agreement. There is little room for disagreement on the direct price effects of a tariff. The evidence is generally available and those interested in protection frequently base their case on the contrast between the very low prices at which foreign producers land goods and the prices which must be charged by the domestic industry if it is to remain solvent. It is frequently urged, however, that even though consumers of protected products pay more for the goods they purchase, the country reaps economic benefits which more than offset the extra costs entailed by the existence of the tariff.

Over the course of the years, a host of arguments have been put forward which purport to show economic benefits deriving from tariffs. Many of these arguments in effect deny propositions which when once understood are generally accepted. As a result, a considerable part of the literature on tariff policy is devoted to the analysis and refutation of arguments which are erroneous, and can be recognized as erroneous by reference to basic economic principles. Considerable care is necessary, however, in analyzing propositions of this kind. They are frequently quite wrong in the form in which they are put forward, but it is often found that there are conditions under which they may have some merit. For example, consider the proposition that a tariff adds to employment. It is easy to see how this idea developed. A tariff clearly promotes the employment of resources in a protected industry, and it is easy to slide from this obvious fact to the proposition that this employment constitutes a net addition to employment in the economy as a whole. There is an element of this kind of thinking in the reports of the Tariff Board on the automobile industry in the 1930's. In its 1936 report, the Board calculated the "cost" of the automobile tariff in terms of the enhanced prices paid by consumers, and also estimated the amount spent by the industry on labour, materials and other purchases. Summarizing the position it took in its 1936 report, the Board wrote as follows in 1939:[1]

> "The Board found in the 1936 report that the industry contributed from $40,000,000 to $47,000,000 in expenditures in Canada and had "cost" the Canadian consuming public about $14,000,000. The Board at that time came to the conclusion that it was "good business" for Canada reasonably to encourage the maintenance and expansion of the Canadian automotive industry."

Here it seems to be assumed that in the absence of the automobile tariff the resources employed in this industry would be unemployed. This is the extreme opposite of the assumption frequently made in international trade analysis. There it is often assumed that full employment exists both before and after the imposition of a tariff, and that the tariff therefore merely leads to a reallocation of employed resources rather than to an increase in employment. Under conditions such as those of the last 15 or 20 years the latter assumption is clearly the one more closely in accord with the facts. Full employment has been the rule, interspersed with short periods of cyclical unemployment. These were not the conditions which ruled in the decade in which the Tariff Board reports on the automobile industry were written, and it is easy to see why it was felt that the full-employment assumption was inappropriate. Indeed, in view of the difficulties being encountered at that time it is not difficult to understand the tendency to associate protection with employment. Even Lord Keynes, who later became a leading advocate of a freely trading world, was prepared to advocate a general tariff for the

[1]Tariff Board, Reference Number 91, *The Automotive Industry, 1939*, Summary, p. 1.

United Kingdom as a short-term emergency measure in the catastrophic days of the early 1930's. Such a policy, if confined to one country, will in fact yield a favourable result on the level of employment in that country. What in effect happens is that the country which raises barriers against imports may for a time be able to export some of its unemployment to its neighbours.

Knowledge of this possibility is not, however, restricted to any one country. Policies of this kind, which have been appropriately christened beggar-my-neighbour policies, are almost certain to call forth retaliation from other countries. Once other countries move to protect their own employment level by raising barriers against the initiating country, then the favourable effect on employment in the initiating country tends to be lost. If, as often happens, the retaliation goes further than the original change, the initiating country may find itself worse off than in the original position and may as a result decide to retaliate against the retaliators. It is not difficult to foresee the consequences if a chain reaction of this kind develops. If anything was learned from the depression of the 1930's, it was that it was desirable to develop a framework of international agreements which would prevent the initiation and cumulation of beggar-my-neighbour policies of this kind.

To sum up, the proposition that protection increases employment has a certain popular appeal because it is assumed that any increase in employment in protected industries represents an increase in total employment. It is obvious that under full-employment conditions such as those of the last 15 or 20 years this cannot be the case. It is much less obvious, but also true, that even under conditions of general unemployment it is unlikely that tariffs can be used effectively to increase employment. A reduction in unemployment can be secured, but since this is at the expense of other countries, and since they will in general take steps to protect their own level of employment, any gain through the use of measures of this kind is likely to be very short-lived.

Examples could be given of a variety of other arguments which purport to show economic benefits deriving from tariffs which offset or more than offset the higher costs of protected commodities. Historically, most of the propositions of this kind have appeared at some time in discussions of commercial policy in Canada, but in general the level of debate on the tariff is a good deal higher in Canada than in many other countries. The Canadian economy is so obviously dependent on trade that resort to some of the more superficial arguments for protection would be regarded as absurd. Those who favour either a retention or an increase in existing Canadian trade barriers usually begin by granting the truth of the general proposition that free or freer trade confers an economic benefit. They go on to argue that in the case of present-day Canada there are special reasons why trade barriers confer economic or quasi-economic benefits.

There are three lines of argument in support of this view which crop up again and again. It is argued, first, that freer trade would be desirable if other countries were prepared to accept a policy of this kind. Because other countries are unwilling to lower trade barriers, it is suggested that it is in Canada's interest to retain or increase existing Canadian barriers. A second line of argument which frequently appears is the so-called infant industry argument for protection. It is accepted that tariff protection involves some economic cost at present, but it is suggested that some of the industries being protected will at a future date be able to operate in Canada without tariff protection. It is therefore concluded that it may be worthwhile to forego some income now in order to enjoy a higher income in the future. Finally, frequent reference is made to the effect of the Canadian tariff on population growth. It is suggested that in the absence of special encouragement to secondary industry there will be a lack of employment opportunities in Canada, immigration will be discouraged and emigration encouraged and, as a result, Canada's population growth will be retarded. All of these lines of argument have received a good deal of attention in the general literature of the subject, and all three merit careful consideration.

The view that the continued existence of other countries' tariffs (particularly the United States tariff) is a conclusive argument for the retention or increase of the Canadian tariff has always figured prominently in Canadian tariff history. It was used with effect at a time when the preferred alternative of both political parties was a wide measure of reciprocity with the United States. It was argued at that time that it was clearly unfair that large and well-established American manufacturers should be able to compete quite freely in the Canadian market while Canadian producers were excluded from the United States market. "Reciprocity of trade or reciprocity of tariffs" was the battle cry, and when the United States showed an unwillingness to accept the former, the National Policy tariff was introduced to provide a measure of the latter. As pointed out above in the outline of Canadian tariff history, even when opportunities have arisen for reciprocity of trade they have not always been accepted by Canada. It is certainly clear, however, that a measure of reciprocity has been a *sine qua non* of substantial Canadian tariff reductions.

The general notion that only reciprocal reductions of trade barriers confer any economic benefits has probably been reinforced in recent years by the procedures followed in international tariff negotiations. Negotiators who have represented their governments at these conferences have in general attempted to secure the largest possible reductions in the tariffs of other countries, while granting the smallest possible reductions in their own country's tariff. Given this example, it is easy to adopt a pattern of thought which regards a reduction in a country's tariff as simply a concession to other countries and a cost to the reducing country.

This kind of thinking is not quite as irrational as it looks, but it must be admitted that there is something paradoxical in the spectacle of a country being bribed to adopt a course of action which is in its own long-term economic interest. In general, a country will gain by reducing its own trade barriers regardless of the actions of other countries, although this need not always be the case. Under some circumstances, the increase in imports brought about by the reduction of trade barriers will lead to a higher price for the imports purchased, and the increased exports required to pay for the higher level of imports may have to be sold at a somewhat lower price. If either or both of these price movements should occur, this would mean a worsening of the terms on which the country exchanges goods, and this would significantly offset any gain resulting from the change. If a single small country is involved the effect of its policies on world prices is likely to be small, and it is therefore unlikely that there will be a significant adverse movement of this kind. For a country in this position the general principle applies that it will benefit over the long run from a reduction in its own tariff, even if the reduction is a unilateral one. Similarly, it is in its long-run economic interest to retain low barriers even if other countries choose to raise theirs.

What makes little sense in terms of long-term economic interests may make more sense in terms of short-run economic and political considerations. The reduction of a subsidy or tariff may pose considerable political problems, and a government which agrees to such a reduction may indeed feel that certain political costs are involved. It therefore may be anxious to minimize such concessions, or at least try to gain enough concessions from other governments to obtain the support of producer interests which have benefited from the tariff concession received. Moreover, the possible short-run consequences are not simply political in nature. The gains from tariff reductions are not likely to materialize immediately, and if the reductions are sufficiently widespread and substantial, some short-run adverse economic effects are to be expected. If the depressing effect of such reductions on some protected industries can be offset by the expansionary effect following upon tariff reductions in other countries, the adjustment process will be eased.

In addition, a unilateral reduction of a country's tariff may have some effect on the terms on which it exchanges exports and imports. If the reduction in trade barriers is reciprocal rather than unilateral, it will lead to an increase in the demand for exports. Thus, even if the initial reduction in trade barriers leads to an increase in the demand for imports, and if this in turn leads to an increase in their price, this may be counterbalanced by an increase in the price of exports arising from the increase in the foreign demand. If this is the case, the terms of trade may be unaffected or even move in a favourable direction. Insofar, therefore, as the terms of trade are sensitive to changes in commercial policy, a reciprocal

reduction enjoys a considerable advantage over a unilateral one. It can also be argued that two tariff cuts are better than one, and if a tariff reduction can be made to yield a double fruit, this is certainly to be preferred to a unilateral one. The negotiator understandably feels that it is wasteful to dissipate bargaining power which could be used to obtain a two-way reduction, in order to garner the smaller yield of a unilateral one. Indeed, negotiating considerations may often suggest courses of action directly contrary to a country's immediate economic interest. For example, a decision may be made to retaliate for some action taken by another country in the full recognition that the retaliation will add to, rather than subtract from, the adverse effect of the action. It may be felt that if it becomes generally known that a particular country will not retaliate against those who injure it, this may remove some of the inhibitions of other countries and over time lead to a series of injuries. In view of all these possibilities, it is not surprising that the actions of other countries, particularly the United States, can have a crucial effect on Canadian tariff policy.

A second line of argument which has frequently appeared in Canadian tariff discussions and has been widely discussed in the literature on commercial policy is the infant industry argument. In its simplest form this argument runs as follows. A country may be well suited to the production of a particular commodity which is currently being imported, but because foreign producers are experienced and well-established there may be a reluctance on the part of businessmen to start or expand the domestic production of the commodity. It is argued that under these circumstances the government should be prepared to grant the domestic industry temporary protection; the protection to be withdrawn when it is evident that the domestic industry can stand on its own feet and meet foreign competition without assistance.

The revival of interest in the economics of growth has led to a widespread discussion of ideas which are related to the infant industry argument. The argument has, however, a long and interesting history. A fairly complete version of the infant industry argument is to be found in books and pamphlets written three centuries ago,[2] and Adam Smith regarded it of sufficient importance to justify a brief discussion in the *Wealth of Nations*. It is interesting to note that Smith had little sympathy for it. His point of view was a simple one. It is true, he said, that a particular industry might be encouraged by such a device, but this will only be at some cost to the economy. This will lower income and thus capital accumulation. If the capital and labour which would flow into the industry being temporarily protected would in any event have gone into some other industry, what is the point in encouraging an industry which requires special assistance? What if the foreign advantage is simply an acquired one rather than a

[2]Several examples are quoted by Professor Jacob Viner in his *Studies in the Theory of International Trade*, pp. 71-72.

natural one? Smith argued that this made no difference. "It is acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet both find it more advantageous to buy of one another than to make what does not belong to their particular grades."[3]

While Adam Smith's view of the infant industry argument had an understandable appeal in what was then the leading industrial country of the world, it was not a popular opinion in the countries which were in the early stages of industrialization and encountering competition from well-established British industries. One of the best statements of the opposing view was contained in Alexander Hamilton's *Report on Manufactures* presented to the United States Congress in 1791. Hamilton, unlike some statesmen who have written on the subject of commercial policy since that time, had taken the trouble to master the analysis of those who had spent their lives in the study of questions of this kind, and was therefore in a position to attack the case for free trade at its most vulnerable point. Adam Smith's position implicitly assumes that if there are good prospects for profits in a particular industry, capital and labour will flow into it. Hamilton, on the other hand, was impressed by the difficulties of the transition from a predominantly agricultural country to one including a considerable amount of manufacturing, and thought government assistance could expedite the process.[4]

> "Experience teaches that men are often so much governed by what they are accustomed to see and practice, that the simplest and most obvious improvements in the most ordinary occupations are adopted with hesitation, reluctance and by slow gradations. The spontaneous transition to new pursuits in a community long habituated to different ones may be expected to be attended with proportionably greater difficulty. When former occupations ceased to yield a profit adequate to the subsistence of their followers, or when there was an absolute deficiency of employment in them, owing to the superabundance of hands, changes would ensue; but these changes would be likely to be more tardy than might consist with the interest either of the individuals or of the society. In many cases they would not happen, while a bare support could be insured by an adherence to ancient courses, though a resort to a more profitable employment might be practicable. To produce the desirable changes as early as may be expedient, may therefore require the incitement and patronage of government."

But the new industries in the United States laboured under a particular disadvantage. They had to face "the superiority antecedently enjoyed by nations who have preoccupied and perfected a branch of industry". "To maintain," wrote Hamilton, "between the recent establishments of one

[3]Adam Smith, *Wealth of Nations*, Book IV, Chap. II.

[4]Alexander Hamilton, *Report on Manufacturers' State Papers and Speeches on the Tariff*, with an introduction by F. W. Taussig, pp. 30-31.

country and the long matured establishments of another country a competition upon equal terms, both as to quality and price, is in most cases impracticable."

Hamilton's report, while not the first or the fullest account of the infant industry argument, presented a point of view which has been of considerable importance historically. The German economist Friedrich List absorbed much of this point of view during his stay in the United States in the late 1820's, and in his *National System of Political Economy* argued in favour of protection for German manufacturing industries along lines basically similar to those of Hamilton. In List's case, as in Hamilton's, it is somewhat misleading to describe the argument as an infant industry or young industries argument. Both List and Hamilton were, rather, arguing for assistance to a broad range of manufacturing industries in countries in the process of transition from an agricultural to an industrial economy. As in the case of some of those concerned with underdeveloped economies today, they were defending assisted industrialization rather than highly selective aid for particularly promising industries. It was, in short, a young economies rather than a young industries argument. This was a point brought out explicitly by List. He visualized economies passing through distinct phases—the savage state, the pastoral state, the merely agricultural state and, finally, the state at once agricultural, manufacturing and commercial. The early transitions from the savage state to the pastoral and from the pastoral to the agricultural, are, according to List, expedited by free trade with advanced nations but the last stage requires government assistance.

While a good deal of List's argument is couched in terms of economic goals, he puts rather more stress on non-economic objectives than Hamilton. It is evident that manufacturing is expected to do more than lead to higher income.[5]

> "We fear not to affirm that on the perfecting of the protective system depends the active life, the independence and the duration of German nationality. The national mind cannot take deep roots, cannot bear beautiful flowers and abundant fruits, but on the soil of general competency."

This vein of thought runs strongly through his book, the last page of which has an ominous ring for a generation which has had the advantage over List of having seen the succeeding century of European history.[6]

> "In the expectation that the Hanseatic cities and Holland will accede to the Customs Union, it would be desirable that Prussia, taking the

[5]Friedrich List, *National System of Political Economy*, Philadelphia, Lippincott and Co., 1856, p. 489.

[6]*Ibid.*, pp. 496-497. Matile's translation contains an error which has been corrected. In his edition Austria appears in the place of Australia.

initiative, should cover the German trade with a flag, and lay the foundations of the German fleet and occupy herself with plans for German colonies in Australia, New Zealand or some other islands of the new continent."

With the introduction of the infant industry argument into the main stream of classical economic thought, these political overtones were dropped. This was not the only change. Given the essentially static nature of economic theory, it was difficult to incorporate an idea so closely related to economic growth. In general it was recognized that the case for young industry protection had particular application to young countries, but in the writings of some economists the infant industry argument became an argument for highly selective assistance to particular industries rather than a case of assisted industrialization on a broad scale. This latter form of the argument is both less convincing and less important than the young economy version. It is less convincing because special reasons must be adduced to explain why a potentially profitable type of production is not undertaken when there is ample entrepreneurial talent with access to capital and no lack of technical personnel; less convincing, also, because special reasons must be given to explain why a particular type of production which fails the free market test should be regarded as a worthwhile project for government assistance. On the other hand, the young economies argument deals directly with an area of social science about which little is known. Quite wild ideas about economic development can pass as wisdom because there is as yet little in the way of rigorous analysis. It may be that when, and if, such a body of analysis is available, it will be found that there is not a sharp dichotomy between measures which are appropriate in a static as compared with a dynamic framework; but at present it is not possible to obtain wide agreement on issues of this kind. As has been noted, the young industry, as opposed to the young economy argument is not only less convincing but also less important. If it is true that assisted industrialization may set off a cumulative expansion, this is a matter of considerable importance. If, on the other hand, what is at stake is whether or not an advanced country does or does not produce a particular type of good, this is clearly of much smaller significance. Of course, the particular good may be a chemical or a piece of electronic equipment of strategic importance; but if this is the case there is no need to introduce the infant industry argument, the cost of assistance being simply regarded as part of defence expenditure. Thus, in general, only those economists who have emphasized the young economy application of the notion have placed much stress upon it.

John Stuart Mill is generally credited with introducing the infant industry argument into classical economic analysis. Mill's opinion at that time carried such weight that the paragraph in his *Principles of Political Economy*

which accepted the infant industry amendment of standard free trade doctrine has been of considerable historical importance. The final version, after some minor revisions from the first edition, reads as follows:

> "The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production, often arises only from having it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has the skill and experience yet to acquire may in other respects be better adapted to the production than those which were earlier in the field; and besides, it is a just remark of Mr. Rae that nothing has a greater tendency to promote improvements in any branch of production, than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, might sometimes be the least inconvenient mode in which a nation can tax itself for the support of such an experiment. But it is essential that the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."

Some of Mill's contemporaries felt that the few possibilities of gain under conditions favourable to a programme of assistance to young industries would be more than offset by the losses arising from ill-advised efforts along these lines, and were therefore skeptical of its practical significance. Mill himself was disturbed by the way in which his authority was used to justify assistance under conditions which he felt were inappropriate. Writing in 1869 to a Mr. Francis of Queensland he said: "I continue to think my opinion was well grounded, but experience has shown that Protectionism, once introduced, is in danger of perpetuating itself through the private interests it enlists in its favour, and I therefore now prefer some other mode of public aid to new industries, though in itself less appropriate." Writing to a Mr. Holden of New South Wales he said that while he still felt that encouragement to new industries would sometimes be useful, any temporary protecting duties should be known and declared to be merely temporary. He went on to say:[7]

[7]*Letters of John Stuart Mill*, ed. H. S. R. Elliot, Vol. II written July 5, 1868, p. 117.

> "But I confess that I almost despair of this general understanding being ever practically established. I find that in Australia, protection is not advocated in this form or for this purpose, but that the vulgarest and most exploded fallacies are revived in its support. As far as I can perceive, those who contend for protection in Australia mean it to be as permanent as any other legislative arrangements; and hold to all the false theories on the subject, of which Europe is rapidly ridding itself, and which are declining even in America. In such a state of opinion as this, I should resist, with my utmost strength, any protection whatever, because it is far easier to withstand these false and pernicious doctrines before they have been carried into practice to any serious extent, than after powerful protected interests have been allowed to grow up under their influence."

Many later economists have shared Mill's attitude. They have been prepared to accept the infant industry argument as theoretically valid, but have rarely displayed much enthusiasm when faced with a concrete application of the theory. This was particularly true when the applications involved such young progressive countries as the United States, Australia, Canada and New Zealand. This is well illustrated by Alfred Marshall's verdict on protection for the United States. In his own work Marshall had tried as far as possible to introduce dynamic elements, and he was therefore very sympathetic to such notions as the infant industry argument which were related to economic growth. In commenting on the argument he wrote:[8]

> ". . . . . a Protective tax, which helps a young industry to develop its latent strength, may be in the interests of an undeveloped country, even though the tax must inevitably do some hurt to those few of her industries which are manufacturing for exportation. For the energy developed in a few high-class progressive industries may spread over a great part of the industrial system of the country, much as an iron screen, which concentrates the whole draught of a chimney on a small part of a nascent fire, may generate an intense local heat which spreads and pioneers the way for a broad strong fire. But neither of these arguments applies to an old manufacturing country."

Impressed by the arguments for protection of some of the American economists, notably Carey, Marshall visited the United States in 1875 and spent a good deal of his time studying this particular problem. As in the case of Mill, after observing protection in action he came to the following conclusions:

> "I found that, however simple the plan on which a Protective policy started, it was drawn on irresistibly to become intricate, and to lend its chief aid to those industries which were already strong enough to

[8]Alfred Marshall, *Money Credit and Commerce*, III, xi, 4.

do without it. In becoming intricate it became corrupt, and tended to corrupt general politics. On the whole I thought that the moral harm far outweighed any smaller benefit which it might be capable of conferring on American industry, in the stage in which it was then.

"Subsequent observation of the course of politics in America and elsewhere has strengthened this conviction. It seems to me that the policy adopted by England eighty years ago remains the best, and may probaby remain the best, in spite of increasingly rapid economic change, because it is *not* a device but the absence of a device. A device contrived to deal with any set of conditions must become obsolete when they change. The simplicity and naturalness of Free Trade — that is the absence of any device—may continue to outweigh the series of different small gains which could be obtained by any manipulation of tariffs, however scientific and astute . . . . ."

The last major figure worthy of mention in the history of the infant industry argument is the American economist Professor Taussig. Taussig became interested in the young industries argument in the early 1880's and carried out an empirical investigation of the significance of protection to various American industries. His original conclusion was as follows:[9]

"Although . . . . . the conditions existed under which it is most likely that protection to young industries may be advantageously applied—a young and undeveloped country in a stage of transition from a purely agricultural to a more diversified condition; this transition, moreover, coinciding in time with a great change in the arts, which made the establishment of new industries peculiarly difficult—notwithstanding the presence of these conditions, little, if anything, was gained by the protection which the United States maintained in the first part of the century."

In his later work Taussig extended the study to more industries and a longer period. As time passed he became less convinced that empirical work of this kind could offer any very firm conclusions and his results came to be stated in more modest terms. For example, in his presidential address to the American Economic Association in 1904 he reviewed the work that he had done on this question and added the following comment:

"Our conclusions as to the general validity of the argument for protection to young industries thus have an uncertain ring. Yet it must be added that while such protection cannot be proved useless, there is at least one striking phenomenon which proves it not to be indispensable. That phenomenon is to be found in our own country. Here we have seen under a regime of the most absolute free trade, the gradual and steady growth of manufactures in communities that a

[9]*Tariff History of the United States*, F. W. Taussig, 1888, p. 61.

> few decades ago were exclusively agricultural . . . . the full competition of the older regions of our own country has been felt by the new regions. The diversification of the new regions has nevertheless proceeded smoothly and steadily . . . . No artificial fostering as against the manufactures of the East has been possible; though, if possible, it would doubtless have been asked. Yet the growth of manufactures in the Central regions has been perhaps the most striking change in the industrial structure of the country during the last generation."

If Taussig were writing today, he would be able to point to a number of American manufacturing industries which once received and used protection, but have now achieved a considerable measure of maturity. Their products are sold in both export and domestic markets at world prices, and they would be only marginally affected by an elimination of the tariff. That many of these industries still cling to protection merely reflects the fact that certain portions of them might be adversely affected, and, in any event, even if the tariff is not used to any significant extent, its retention is worthwhile if it might conceivably be used at some future date. To the extent that the tariff has been used it has had the effect of increasing the employment of resources in these industries, but there seems little doubt that the American chemical, automobile, steel, machinery or electrical manufacturing industries would exist on a very large scale regardless of the commercial policies followed by the United States government in the past.

Taussig's investigation helped to show how difficult it is to marshal the evidence necessary to render an unqualified verdict on a particular application of infant industry protection. The basic difficulty is one very frequently encountered in economics, history, or for that matter, in any of the social and natural sciences in which controlled experiments can rarely be made. The empirical data available to test hypotheses in studies such as these often come in a highly inconvenient form. For example, in testing the hypothesis that infant industry protection may promote higher per capita income over the long run, one requires data showing what would have happened to an economy in the absence of infant industry protection and what has resulted from its application. Such data are never available. Over an extended period many factors influencing per capita income are changing simultaneously. Government commercial policy, as applied to young industries, may well be one of the least important of such factors, and it is virtually impossible to disentangle its effect from the effects of all the others. This is true even in the simplest possible case.

Consider a situation in which a particular industry has been accorded protection, has made use of the protection for a period of years and either has finally achieved an export status or has at least been able to compete successfully with foreign producers in its domestic market without a tariff.

Even here where it would appear that a successful application has been made, some questions remain unanswered. There is, for example, no way of being sure that a similar result would not have been obtained in the absence of protection. It costs businessmen very little to ask for a tariff, and the extra profits resulting from a successful application for protection are always welcome. If such requests are refused the investment is often still forthcoming. Suppose, however, that for this industry a good case can be made that in fact the investment would not have been forthcoming. The industry being considered may be characterized by decreasing costs. Perhaps it can be shown that the first few firms in the industry necessarily laboured under a considerable disadvantage in competition with well-established firms abroad, but with the multiplication of firms the availability of trained personnel and widespread knowledge of the processes involved made the task of later firms much easier. The early firms in effect provide a service to other firms for which they receive no payment. Under these circumstances it could be held that an industry which otherwise would not have existed within the country has been brought into existence by temporary government assistance and achieved viability.

But this assistance has involved a cost. During the interval in which the industry was being established, consumers of the industry's product have in effect been subsidizing it. If a bounty rather than a tariff had been used, the government would have a record of all the payments made to the industry over the interval, and this would provide a first approximation of the community's investment in the industry. As in the case of other investments, this one would be expected to yield a rate of return; unless it could be shown that the community was benefiting, and could be expected to benefit in the future, to an extent equal to or greater than the benefit which would have been secured by an alternative use of the funds, then doubts would remain on the wisdom of the policy. Such benefits are extremely difficult to measure. If it could be shown that because of the saving in transportation costs the domestic price of the industry's output was, and could be expected to be, lower than the landed price of foreign goods, this would provide an offset. Similarly, if it could be shown that the existence of the industry conferred a benefit on other industries for which no payment was received, this would also constitute an offset to the cost. The latter point, referring to the external economies arising from particular industries, have generally been regarded as the principal *raison d'être* of infant industry assistance. There are some who have argued that the creation of a cadre of technicians and entrepreneurs is of such importance as a catalyst in economic growth that a policy of this kind may prove successful in underdeveloped countries. Whether or not this is so for economically backward countries, it would be generally agreed that conditions in advanced countries, including Canada, differ fundamentally from those encountered in less developed economies.

Canada has a considerable number of entrepreneurs with access to capital, and whenever the scale or intricacy of any particular development prevents domestic exploitation of a favourable opportunity, American companies and investors are often eager to assume the risks of the experiment. If some initial losses have to be accepted, to be counterbalanced later by gains on a substantial scale, then in general there are investors available with sufficiently long purses who will not be frightened away by teething difficulties. Thus with respect to availability of technical know-how, capital and entrepreneurial talent, Canadian industry is in a position not differing greatly from that of American industry. Where the Canadian situation differs, it is with respect to unrestricted access to the large United States market. A particular manufacturing process may be regarded as uneconomic in Canada, not because of difficulties in getting started but rather because the scale of the market is insufficient to permit competitive production. This is a disability which is not temporary. Thus many Canadian manufacturers are quite frank in pointing out that the protection they require is permanent rather than temporary, or at least as permanent as American trade barriers.

This does not mean that there are no situations in which some temporary assistance would be worthwhile. For example, there are some regions of Canada which have lagged behind the rest of the country in terms of economic development, and because of population immobility, income differences have developed and been perpetuated. It has sometimes been suggested that some temporary aid to particular industries locating in these regions might form part of a general scheme of regional assistance. As indicated above, it has often been urged that direct subsidies would be preferable to tariff protection in such cases. A subsidy keeps down the price of the final product and therefore assists the industry in obtaining a larger market for its output. Moreover, a more accurate record can be kept of the costs involved if a subsidy is used; and if the purpose were to influence location, a flexible instrument such as a subsidy might prove more effective.

It is perhaps worth pointing out that governments at all levels already provide a number of services to private firms including, in particular cases, the provision of capital at preferred rates. It might be argued that there is little justification in setting up rigid tests for the subsidization of promising industries when much looser criteria prevail in other types of government expenditure. There is little doubt that if any reasonably careful screening is applied, the amount of waste involved in mistaken infant industry assistance might be quite small. If the extent of government activities is large, and the time of ministers and capable officials very limited, it can be argued that their time could be better employed in applying more stringent tests to other types of government expenditure. Applying sound economic principles, there is little point in devoting excessive time and effort to achieve perfection in one area, if rough rules of thumb are applied elsewhere. It

seems unlikely however—unless other aims than those of economic development are to be served—that many significant opportunities will arise in an advanced country such as Canada, in which it will prove worthwhile to subsidize types of production which do not meet the normal tests of the market.

A third line of argument given prominence concerns the connection between the tariff and the population sustaining capacity of the Canadian economy. This is a subject which has been accorded a good deal of attention in discussions of the Canadian tariff, and the argument supporting the view that the tariff has promoted and will promote a higher rate of population growth has appeared in several versions. In its simplest form it merely asserts that the tariff creates job opportunities, greater employment in turn encourages immigration and discourages emigration, and this in turn promotes a higher rate of population growth. This type of reasoning is based on an oversimplified view of the economic process, and most proponents of the argument prefer to present their case in a more complex form. In one of the versions of this argument it is pointed out that secondary manufacturing industries are more labour-intensive than alternative types of employment, and that the encouragement given to their expansion by the tariff has been (and will be) necessary to provide employment opportunities for a rapidly growing population. It is difficult to know precisely what assumptions are being made in this form of the argument, but in some presentations it appears that certain rigidities are being assumed in the structure of the economy. For purposes of identification it will therefore be referred to as the "structural" version of the population sustaining argument. An example of the structural argument is to be found in Dr. Mackintosh's study for the Royal Commission on Dominion-Provincial Relations. Discussing the general effect of a tariff, he said:

> "If the country concerned is economically immature and its most effective industries are of the exploitation type in which the ratio of population to resources is low, the diversion of labour and capital occasioned by the protective tariff will be to industries employing more labour relative to resources. If this diversion can be achieved with moderate protection, the result is likely to be that, though the numbers engaged in export exploitation industries will be reduced, the total population will be increased while the national real income per head will be reduced. In the degree that there are broad economies, industrial, social and governmental in a large population, aggregate real income may be increased."[10]

Another version of the population sustaining argument which does not rely on rigidities but rather stresses the redistributive effect of the tariff has

[10] W. A. Mackintosh, *Economic Background of Dominion-Provincial Relations*—p. 84.

[11] C. Barber, "The Canadian Tariff", *Canadian Journal of Economics and Political Science*, 1955, pp. 513-530.

been put forward by Professor Barber.[11] Barber argued that, in the absence of both the Canadian and American tariffs, total Canadian income and that portion of it accruing to labour would undoubtedly be higher. He further argues, however, that the American tariff, by imposing high rates on manufactured commodities, distorts the Canadian economy in the direction of less labour-intensive goods. A Canadian tariff on manufactured commodities tends to offset this distortion although, as Barber points out, the imposition of an additional set of trade restrictions has lowered Canadian per capita income. He considers that it is possible that labour's share of the diminished income might be so increased by the redistributive effect of the tariff that the absolute level of labour income is higher than it would have been in the absence of the Canadian tariff.

The structural and redistributive arguments will be considered in reverse order, beginning with the redistributive effect of the Canadian tariff. It has long been known that changes in commercial policy can have an effect on the distribution of income. For example, the abolition of the Corn Laws in Great Britain in the middle of the nineteenth century opened the way for the free entry of grain from the outside world, and thus introduced additional competition for British agriculture. Over the long period adjustments took place,[12] but those who owned land throughout the period found themselves with a resource which was highly specific to agriculture. It is true that they could dispose of their land, but under the new circumstances in which land-intensive commodities were being imported from abroad, the capital value of their land was lower than it would have been in the absence of the change. It could be argued, therefore, that the abolition of the Corn Laws had an adverse effect on landowners; their situation being more favourable with restrictions on the entry of grain than in the absence of these restrictions. Since it can be shown that the gain to the economy as a whole was greater than the loss to the landowners, it is clear that those losing by the change could have been compensated by those gaining, and as a result all groups in the economy could have benefited from the change. Since in fact the landowners were not compensated for their losses, it is not surprising that they resisted the change and were never fully reconciled to it.

A similar argument on somewhat less secure foundations has been put forward for Australia and Canada. Here the conditions of the United Kingdom apply in reverse. In the case of the new countries, land—by which is meant not only agricultural land but also timber, water and mineral

[12]It is perhaps worth noting as a reminder that in the real world other things do not necessarily remain equal, that during the two decades immediately following the abolition of the Corn Laws, British agriculture went through a period of considerable prosperity. The area under wheat in 1869, over 20 years after the abolition of the Corn Laws, was the greatest ever known. It was not until the 1870's and 1880's with improvements in transportation and the opening up of new territories that the full impact of free trade in grain was felt. From 1871 to 1901 the number of agricultural labourers in England and Wales declined from 962,000 to 621,000. See W. B. Court, *A Concise Economic History of Britain*, Cambridge University Press, 1954.

resources—is the abundant factor of production, and labour has been treated as the scarce factor. Under these circumstances it has been argued that a tariff which excludes or reduces the import of labour-intensive commodities, will lead to a redistribution of income in favour of the scarce factor, labour. It is further argued that while the existence of the tariff will lower total income, it is possible that labour's share of the smaller income will increase sufficiently to leave the return to labour higher than it would have been in the absence of the tariff. Thus it is concluded that the Canadian tariff may have encouraged immigration and discouraged emigration and thus promoted a larger population.

There has been a good deal of theorizing on this topic in recent years, much of it restricted to highly simplified assumptions. In the case of Canada it is argued that the burden of the decrease in income has fallen upon the owners of land and national resources. Since the proportion of national income accruing to the private owners of natural resources [13] from ownership alone cannot be very large, it seems highly unlikely that in fact the main burden of the tariff has been borne by these owners. Given the magnitudes involved, there seems to be more reason to suppose that the tariff has lowered rather than raised the return to labour in Canada. Whatever the answer may be, there is general agreement that if a transfer of income to labour is desired it can be carried out at less economic cost by taxes and subsidies of an appropriate kind. The only merit (if it is a merit) possessed by a proposal that a tariff should be used for this purpose is that it is a less painful method of extraction. Its economic cost is not as apparent to the public as an equivalent set of explicit taxes and subsidies.

The structural version of the population sustaining argument may be subject to the same type of criticism as the redistributive argument. When it is suggested that income per head will be lower but population higher, the implicit assumption which may be made is that labour's share of income is so increased that, while per capita income is lower, wages are higher because of the redistributive effect of the tariff. If this is the case, the structural argument is simply a variant of the redistributive argument and nothing more need be added to what has already been written. It may be, however, that a somewhat different argument is being put forward which admits that the tariff will lead to lower wages but suggests that employment opportunities will be so much more abundant because of the tariff that immigration will be encouraged and emigration discouraged.

The issue here involves the degree of flexibility which prevails in an economy such as that of Canada. This line of argument assumes that a form

[13] As Mr. A. D. Scott pointed out in a comment on an earlier version of this argument, a significant proportion of the returns arising from resource ownership accrues to governments. Royalties and other revenues derived from this source by governments are an alternative to taxation. Thus a substantial share of any increase in the returns to the owners of natural resources arising from a decrease in the tariff would accrue to governments, *i.e.*, to the community as a whole, including labour.

of structural unemployment can persist in Canada which will not yield to changes in wage rates. If there are widespread rigidities of this kind, a situation could exist in which wages are fairly high, but unemployment significant and continuous. Given a lack of jobs, immigration will be discouraged and emigration encouraged. A tariff, it is suggested, will lead to a fall in real wages; but by promoting the production of more labour-intensive commodities it will lead to an increase in job opportunities and, through a rise in employment possibilities, to an increase in population. Those who believe that widespread rigidities of this kind are likely to exist in Canada will find this line of reasoning convincing. On the other hand, those who are impressed with the remarkable capacity of the economy to adjust to changing circumstances, as so vividly exemplified by the rapid and complete absorption of the armed forces and war workers following World War II, will find this approach much less convincing. They would be inclined to argue that if appropriate steps are taken through monetary and fiscal policy to maintain a high level of employment, the lower income resulting from the introduction of additional trade barriers will constitute a discouragement rather than an encouragement to population growth.

While a great deal of emphasis is placed on the population sustaining argument at present, a reference to the recent history of Canada's population growth would suggest that this emphasis is misplaced. Canada's population growth depends on three elements: natural increase, immigration and emigration. Presumably few would argue that the tariff has any significant effect on birth or death rates and no more need be said about it. This leaves immigration and emigration.

A careful study of Canadian immigration would throw some light on what have been limiting factors in recent years, but even in the absence of such a study it is clear that apart from cyclical disturbances no significant difficulties have arisen in the last ten years in absorbing immigrants into the labour force. This would suggest that the so-called absorptive capacity of the Canadian economy has not been a bar to higher immigration. It is true that certain administrative provisions regarding the nature and extent of job opportunities in Canada have played some part in reducing immigration, but these are probably best regarded as protective devices for minimizing adjustments among immigrants and domestic employees. No one demands that Canadian high school students should be forced to remain in school unless openings are available for them, yet similar reasoning is sometimes applied to immigrants. If the objective is an increase in immigration, it would seem that the appropriate method is through an alteration in immigration policy. There seems to be no reason to suppose that the absorptive capacity of the Canadian economy would limit immigration if governmental barriers were removed. Changes in tariff policy can have little effect on the real determinants of immigration, *i.e.*, immigration policy and the availability of immigrants.

Turning now to emigration, it is well known that over the whole period since Confederation Canada has lost by emigration almost as many people as have been gained by immigration. What is perhaps not so well known is that the absolute level of emigration to the United States since the end of World War II has been lower than in any other comparable peacetime period since Confederation, while relative to total population the flow is insignificant when compared with the latter portion of the nineteenth century or even the 1920's. If emigration to the United States had been zero during the whole postwar period the effect on total Canadian population would have been very small. In view of the substantial and long-lasting disparity in real wages in the two countries it is unlikely that the flow could in fact be reduced to zero or reversed, so that no significant gain in population can be expected from any effect of tariff policy on emigration regardless of the direction of the influence. Perhaps conditions will change in the future, but thus far there has been no indication of this.

Since any curtailment of emigration could have little effect on the rate of population growth, and since the level of immigration is in large measure determined by considerations other than those likely to be influenced by commercial policy, it is by no means easy to see the connection between population growth and tariff levels. In the past, with unrestricted immigration and large-scale emigration, the influence of the tariff on size of population—whether positive or negative—raised a significant question. In the light of what has been said about the present determinants of Canadian population growth, this connection can have little practical importance today.

We are now in a position to take up the question posed at the beginning of this chapter, *i.e.*, what relationship exists between the cash cost and economic cost of the Canadian tariff? Or, to put the question in other terms, is the reduction in real income resulting from the imposition of a tariff greater or less than the extra amount paid by purchasers of protected commodities for goods which could be obtained at lower prices abroad? One of the fullest discussions of this question in the literature on international trade is that contained in Professor Viner's memoranda on commercial policy.[14] In his view, few serious problems arise in moving from the "cash cost" to the economic burden of the tariff.

> "For the country levying the tariff, the burden of long-run protection consists primarily of the excess of the cost at which the protected commodities are produced at home over the cost at which, under free import, they could have been obtained from abroad in exchange for exports. . . . This would somewhat exaggerate the burden of the tariff, since if its tariff were to be removed, the world prices, in money, and still more in terms of its own export products, at which

[14] J. Viner, *International Economics*, The Free Press, Glencoe, Illinois, 1951, pp. 166-167.

it could obtain the quantities it would wish to purchase of the protected commodities would rise somewhat. The degree of exaggeration would ordinarily be slight, however, where a single country is under consideration. . . . In so far, moreover, as the removal or reduction by one country A of its restrictions on trade would lead other countries, either unilaterally or as the outcome of bargaining, to remove or reduce their restrictions on the import of country A's products, the joint removal of the tariffs would operate to check the tendency for the terms on which A could obtain its imports in exchange for its exports to move unfavourably to A and might move them favourably to A. In so far, therefore, as the maintenance by countries B and C of a tariff on A's products can be regarded as the result of A's maintenance of a tariff on the products of B and C, or in so far as A, by removing its tariff on their goods, can obtain the removal of the tariff on its goods, the total excess in the aggregate money cost of production in A of the commodities whose domestic production is dependent on the tariff over what these quantities would cost at their prevailing world prices free of duty is an approximate measure, in terms of money, of the aggregate economic burden of the tariff, which does not call for substantial correction downwards."

This is a very straightforward analysis of the problem. The conclusion is clear. If any effect on the terms of trade can be ignored, either because a single country is involved or because the reduction in tariffs is reciprocal rather than unilateral, then the cash cost can be regarded as an approximate measure of the economic burden of the tariff. Perhaps this is all there is to be said, but the very sweeping nature of this conclusion should be recognized. A judgment is being made that apart from a possible effect on the terms of trade, there are *no* significant economic benefits which need to be taken into account in moving from an estimate of the direct observable cost to an estimate of the economic burden of the tariff.

There are other complicating factors, however, about which little can be said in quantitative terms, but which introduce an element of uncertainty when an attempt is made to move from the accounting magnitude to the economic one. Two of these are technical in nature and, while little can be said about them, the fact that they work in opposite directions reduces their impact. The first has to do with the general level of prices in a tariff levying country. To the extent that the tariff is levied unilaterally, it leads to consequential effects on the balance of payments; and, through price and income changes, to a new and different equilibrium situation, with a higher level of money prices within the tariff levying country. Under these circumstances part of the enhanced price of protected commodities in the tariff levying country represents a general inflation of the price level and does not constitute an economic cost to the country concerned. As in the case of the terms of trade, this effect can be largely disregarded if

the imposition or retention of trade barriers by other countries is related to the imposition or retention of barriers in the tariff levying country. In other words if the imposition of A's tariff on the products of B and C can be regarded as an important factor in determining the existence of B's and C's tariffs on A's exports, then the balance-of-payments effect works in both directions and no general increase in the price level may result. There is another factor which operates in the opposite direction. The cash cost estimate is derived from a fixed pattern of consumption based on the old set of prices. As illustrated in Footnote 1 of Chapter 6, this tends to give the cash cost estimate a downward bias.

The complicating factors discussed in the preceding paragraph introduce a certain haziness into the notion of economic cost, but if these were the only difficulties which arose in deriving an estimate of the economic cost of the tariff from price and quantity information they could perhaps be surmounted. This is, however, not the case. Frequent reference has been made to the possible effect of the Canadian tariff on the tariffs of other countries, particularly that of the United States. It has been seen that the view taken of this relationship influences the judgments made on the effect of the Canadian tariff on the terms of trade and the general level of prices in Canada. This is by no means the whole story. If it is true that rejection of reciprocity in 1911 and 1948 had a most significant effect on the trade barriers facing Canadian exports—if, in short, it is true that the desire to maintain the Canadian tariff has had a strategic influence at critical turning points in Canadian-United States trade relations—then more has been involved than the terms of trade and prices. The reciprocal reduction of trade barriers not only tends to neutralize some of the adverse effects of a unilateral removal but confers a double benefit. It not only increases imports and through the mechanism of the system generates an increase in exports, but independently increases the opportunities for exports by reducing the trade barriers of other countries. Looked at from the other side, the reciprocal imposition or retention of trade barriers not only tends to neutralize any favourable effect on the terms of trade but imposes a double burden. The economic cost to Canada of the trade barriers of other countries, particularly those of the United States, cannot be measured by the use of the techniques of this and the preceding chapter. But clearly, if part of this burden can be imputed to the existence of the Canadian tariff, then any measure of the economic cost of the Canadian tariff to Canada should include an allowance for the unseen half of the double burden. Since the cash cost estimate is restricted to the observable portion of the double burden, then for those who would argue that the existence of the Canadian tariff has had an appreciable influence on the trade barriers maintained by other countries against Canadian exports, the cash cost estimate represents a substantial underestimate of the total economic cost of the Canadian tariff.

Up to this point no mention has been made of the regional impact of the tariff. An estimate has been made of the cost involved in having a tariff but little has been said about the way in which this cost is distributed among regions. This omission has been intentional. A special study has been made for the Commission which deals with regional problems at considerable length. Moreover, it has been felt that the treatment accorded this question in Dr. Mackintosh's study for the Royal Commission on Dominion-Provincial Relations is a definitive one and there is not much to be added to it. Dr. Mackintosh argued that while it was true that the western and Maritime provinces, with less than their share of protected industries, unquestionably were adversely affected by the tariff, it was nevertheless true that over time, adjustments had been made. In particular, those who settled in parts of Canada after the tariff had been established at what has come to be its historical level did so under conditions which have not changed significantly over the period. Thus, while it is true that their prosperity has been less marked than it would have been in the absence of the tariff, the adverse effect of the tariff was, in principle, taken into account when the areas were settled. This was clearly not the case with the Maritimes and while Mackintosh argues that other fundamental factors have played a more important role in the economic difficulties encountered by this region he adds:[15]

> "The protectionist policy encouraged the growth of the steel and coal industries but in communities dependent on the traditional export industries, it accentuated the difficult problems associated with a declining population in which the higher age-groups were increasingly important, and with declining rates of local investment. It presumably restricted the revenues of provincial governments and increased the expenditures necessary to cope with the problems of declining industries and declining areas."

The analysis so far has, in effect, compared the existing position with that which would have prevailed if Canada had never had a tariff, or had removed it early in its history. A question of more practical interest to the present generation relates to the economic gain which might be expected to flow from the removal of the tariff. It can be said with certainty that the short-run economic gain to be anticipated from the unilateral removal of the Canadian tariff would be less than the cash gain. In fact, the unilateral removal of the tariff might even result in a short-term economic loss.

A removal of the tariff would lead immediately to a fall in the price of protected commodities and thus to the disappearance of the cash cost of the tariff. That is, there would be cash gain equivalent to the former cash cost. The economic gain from the change, however, might only be realized over a longer period. Initially the gain to purchasers of protected

[15] W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, p. 89.

commodities would be offset by a loss to protected producers. As factors of production in the protected industries shifted to other activities (or were reorganized within the existing industries) the economic gain would gradually be realized. If the removal of the tariff and the consequential fall in the prices of protected commodities were accompanied by a parallel fall in the prices of the factors of production employed in the protected industries, the initial impact would be merely a transfer of income from factors in the protected industries to purchasers of protected commodities. No loss of output to the economy as a whole would result and as soon as factors of production in protected industries moved to more remunerative employment elsewhere in the economy, the output of the economy as a whole would rise. It is quite possible, however, that the adjustment of the prices of factors of production would not take place with sufficient rapidity, and there might well be some temporary unemployment of resources. If this occurred on a significant scale, a temporary fall rather than a rise in real income might accompany a major change in the tariff. Adjustment problems would arise even if the reduction in the Canadian tariff were accompanied by reciprocal reductions in the tariffs of Canada's major trading partners. Given a reasonable measure of economic flexibility, these adjustment problems would be overcome in time and an economic gain realized. The severity of the adjustment incurred would be minimized, and the size of the economic gains maximized under a reciprocal as opposed to a unilateral tariff reduction.

The problems of adjustment arising from tariff reductions are not unlike those which would arise with the reduction or removal of any subsidy. For example, referring back to the case of the gold mining industry, it is clear that if the subsidy were discontinued the initial result would be a fall in the income of gold miners and mining corporations which would in part offset the gain to the rest of the economy. If, over time, all the resources currently being assisted in the gold mining industry moved out and found equally remunerative employment elsewhere in the economy, then the annual gain to the economy as a whole after the adjustments had been made would be roughly equal to the annual cash cost of the subsidy. This would clearly require a fairly long period, and it is therefore not a gain which could be realized at once or even in the immediate future. On the other hand, if the gold mining subsidy had never been instituted at all, then over the course of the last seven or eight years the industry would have been adjusting to the new situation facing it, and by now many of those currently receiving assistance would be equally well off in some other industry at no cost to the taxpayers.

This is one of the inevitable consequences of long-standing tariffs or subsidies. At any point in time after they are established, it is possible to argue that if they had not been established the economy would be better off by an amount equal to the economic cost of the tariff or subsidy. They

have been established, however, and in the expectation of their continuance businessmen have invested in fixed capital and employees have developed particular skills. Thus, while it may be recognized that the continued existence of the tariff or subsidy leads to an annual economic cost, this may not be a cost which can readily be eliminated in the short run. Moreover, the process whereby it is eliminated is certain to be painful for at least some members of the community. Shareholders of firms adversely affected by a change in commercial policy suffer a direct capital loss. Employees of firms hard hit by tariff reductions must find alternative employment. If they are young, adaptable and mobile this may not pose a serious problem in a fully employed economy, and any losses they suffer may be fairly short run. If, however, they are older with family responsibilities, and perhaps owners of homes in a community with limited alternative sources of employment, their losses may be considerable and of long duration.

This last point comes very close to the heart of the tariff controversy. The transfers of income resulting from a long-standing tariff become built into the system. Adjustments have all been made. Abnormally higher profits are not earned in protected industries and the level of wages in protected industries is likewise adjusted to the general level prevailing throughout the economy. Of course, in a dynamic economy, changes are taking place constantly and a reduction of the tariff can be regarded as merely another disturbing factor. From the point of view of those who are damaged, however, it looks like a deliberately inflicted wound.

PART IV

THE STRUCTURE OF THE CANADIAN TARIFF

8

A DESCRIPTION OF THE CANADIAN TARIFF

THE PRECEDING chapters have been primarily concerned with the development and economic effect of the tariff as a whole. The emphasis in this part shifts away from the general level of the tariff to the relationship among individual rates. In this chapter an attempt will be made to describe in a very brief space the general structure of the present Canadian tariff, while in the succeeding chapter some consideration will be given to the criteria which might be used in assessing that structure.

Before turning to the description, some warning is perhaps in order. Most tariffs are highly complex, and the Canadian tariff has been described by the Chairman of the Tariff Board as "easily one of the most complicated in the world". A fairly complete description of all the intricacies of the Canadian tariff would require a number of volumes rather than a single short chapter. Indeed, a really comprehensive knowledge of all the facets of the Canadian tariff is the work of a lifetime, and the present treatment should be regarded as nothing more than an introduction. A review will first be given of some of the special features of the Canadian tariff, followed by a brief analysis of the general structure of rates.

Some Special Features of the Canadian Tariff

A first look at the Customs Tariff and the Customs Act generally leaves the reader with a strong impression of the large number of rates and the large number of special provisions contained in the Canadian tariff. Subject to the warning of the previous paragraph, an attempt will be made in this section to strip away some of the complexities which are of limited importance in order to concentrate on the fundamentals. For those who are not familiar with the Customs Tariff some examples will be given of the more obvious complexities.

1. Multiplicity of Rates

In some countries, once a commodity has been classified under a tariff item there is only one rate which is applicable to it. One of the features of the Canadian Tariff which helps to add to its complexity is the multiplicity of rates. Any method of counting rates in the Canadian tariff is

necessarily arbitrary, but there are around 2,000 items and sub-items each carrying at least three rates. Not only does the published tariff have three columns but on occasion additional rates are shown for the same commodity. For example, tariff item 8b Canned Hams appears to carry five rates: BP 15%, MFN 22½%, GEN 35%, GATT 20%, and a Free rate under the Australian and New Zealand Trade Agreements. The country of origin of the imported commodity is thus a factor in the rate imposed on the import, but it may also depend on the end-use of the product. Fully 17 rates are shown for the items covering olive oil, 12 of them being Free rates dependent upon the use to which the olive oil is put, and five others covering all other uses. The five rates are BP Free, MFN 10%, GEN 20%, a 5% rate under the Trade Agreement with Spain and a GATT rate of 7½%. Similarly, tariff item 532d Fabrics, wholly of cotton, coated or impregnated n.o.p., carries rates of BP 22½%, MFN 27½%, GEN 35% and 4¢ a pound, and GATT rates of 20% and 25%. The item covering the identical commodity, tariff item 532a adds the phrase "for use in the manufacture of projection screens" and carries rates of BP Free, MFN Free, and GEN 20%. This is an "end-use" item, but in some cases a similar result is achieved by the provision of a drawback for home consumption.

Country of origin and end-use are not the only factors which can influence the rate on a particular commodity. Rates also vary on fresh fruits and vegetables depending upon the season in which they are imported. In the case of automobile parts, the rates depend upon whether or not automobile manufacturers do or do not succeed in achieving a given percentage of British Commonwealth content. Fortunately, from the point of view of students of the Canadian tariff, the situation is not quite as bad as it looks. Once some of the merely formal provisions have been segregated, it will be found that the operative tariff is simpler than it appears to be at first sight.

(a) *Three columns or two?*

While the Canadian tariff is formally a three-column tariff, the third column is of virtually no significance at present. With the extension of MFN treatment to Japan and the U.S.S.R. there are now no countries with which Canada trades on any scale which still come under the General tariff. Some of the east European countries, Bulgaria, Roumania and Hungary, are still subject to General rates, but the existing share of Canada's imports which enter under General rates is now reduced to a tiny fraction. The main function performed by the General tariff is that of a standby schedule which can be invoked if a country loses its MFN status in the Canadian market. Should this ever happen, the General rates would again be worthy of attention, but at present the rates in the third column of every tariff item can be ignored with impunity.

(b) *Trade agreement rates*

Another source of additional rates which is largely formal in nature is the separate listing of GATT rates. GATT rates are the MFN rates applied, and are only shown separately when they differ from the statutory MFN or Order-in-Council MFN rates. When they are listed separately this merely means that they have not as yet been given statutory authority, but are a part of the tariff purely as a result of an Order-in-Council incorporating the negotiated rates of trade agreements. At present, therefore, the statutory rates which differ from GATT rates are merely a standby which would come into effect if Canada withdrew from the General Agreement on Tariffs and Trade, or withdrew the GATT rates by Order-in-Council. Rates shown under the authority of the Trade Agreement with Spain and Portugal are in the same category. In the case of some tariff items the GATT rate listed in the tariff is lower than the BP rate, and since the GATT rate is listed in the second column it might appear that British Preferential countries fared worse than others. This is, of course, not the case. If the GATT rate is lower than the statutory BP rate the GATT rate applies. For example, tariff item 220 (iii) covering some medicinal and pharmaceutical preparations has rates of BP 60%, MFN 60%, and GATT 25%. For this item the only rate which applies to BP and MFN countries is the 25% rate.

When separate rates are shown as applying under Preferential Agreements with Australia, New Zealand and South Africa these rates apply only to these countries. In general, concessions to these countries mainly involve food items although occasional rates are found in other parts of the tariff.

(c) *End-use items*

While the third column and some of the separate listing of Trade Agreement rates lead to a proliferation of rates which has little real significance, the additional rates resulting from end-use items are often effective rates which significantly influence the protection accorded various industries. A protected Canadian industry may enjoy what appears to be substantial protection through having high rates on the commodities it produces, but many of its important customers may be given the privilege of importing the same commodities at much lower rates or duty free.

This device provides a way in which an increase in net protection can be given through a tariff reduction. For example, a manufacturer may have a rate of 20% on his final product, and pay a similar rate on imported parts or materials. Some of these parts or materials may not be produced in Canada, so that a reduction in their rates can be given without affecting other industries. Such a reduction, by relieving the manufacturer of the final product from the payment of some duties on his inputs, in effect raises his protection without at the same time bringing about an effective reduc-

tion in the protection accorded other industries. In a number of cases the reduction does affect other protected industries, and the granting or removal of end-use items leads to controversy between protected producers of a good and the protected users of the same commodity. The device of end-use items is found throughout the tariff, although there is a considerable concentration in the steel and machinery sections. Tariff item 386 covering various types of steel contains 21 end-use categories. Such items as this make a considerable contribution to the multiplicity of rates found in the Canadian tariff.

(d) *Order-in-Council items*

Under Section 273 of the Customs Act the Governor-in-Council is empowered to make regulations "reducing the duty on any or all articles, whether natural products or products of manufactures, used as materials in Canadian manufactures". This legislative delegation gives rise to so-called Order-in-Council items providing temporary reduction in the rates on products used in Canadian manufacturing. For example, the MFN rate on diesel or semi-diesel engines and parts is 20%, but diesel or semi-diesel engines used in the manufacture of power shovels, cranes, graders or scrapers and snow-blowers enter under an MFN rate of 7½%. This reduction derives from an Order-in-Council effective January 1, 1957, which expires January 31, 1960. The power to make reductions of this kind is ordinarily used to provide temporary assistance to particular Canadian industries whose competitive position is weakened by the duties which they must pay on imported materials or parts. Order-in-Council items often graduate to the full status of end-use items by being embodied in the annual budget changes.

(e) *Seasonal rates*

As has been indicated, a Canadian customs official must not only on occasion inquire about the national origin of a commodity, or the industry to which it is going, but may also be called upon to look at the calendar, and charge a different rate depending upon the date of entry of the import. Seasonal rates, which are applicable to fresh fruits and vegetables grown in Canada, are intended to provide higher protection for Canadian producers during the season of the year in which their products come on the market. Since the higher seasonal rates are usually specific while the rest-of-year rates are ad valorem, the effect of the price increases of the last few years has reduced the spread between the in-season and out-of-season rates, and in some cases reversed the standard relationship. When this has occurred, as in the cases of raspberries or strawberries, the industry does not request the in-season rate, and the 10% ad valorem out-of-season rate continues to be applied.

(f) *Other devices which add to the number of rates*

 There are a number of other devices which help to add to the number

of rates in the Canadian tariff including value brackets, Canadian content provisions, drawbacks for home consumption, and class or kind distinctions. The last three are important for other reasons and will be discussed separately in the following pages. The value bracket technique permits different rates to be applied to different grades of the same commodity. For example, tariff item 532b—woven fabrics, wholly of cotton, printed, dyed or coloured, n.o.p.—has eight rates, with rates of BP 17½% and MFN 17½% plus 3¢ per pound on fabrics valued at more than 80¢ per pound, and a higher rate of BP 17½% and MFN 25% plus 3½¢ per pound on fabrics valued at less than 50¢ per pound. In recent years, price increases have occurred and as a result printed cotton cloth imports have tended to move into a higher value bracket with a lower MFN rate of duty. Similar changes have occurred elsewhere. Tariff item 385, sheets, plates, hoop, band or strip, of iron and steel, hot rolled valued at not less than 5¢ per pound n.o.p., with rates of BP Free, MFN 12½% has very recently become a rate of considerable importance due to the rise in steel prices. It is now supplanting several rates formerly covering steel plate, sheet and strip.

2. *Drawbacks and Remissions*

Most countries provide drawbacks of duty for materials entering into goods which are exported. This is a very old device for lessening the impact of a tariff on trade; the rationale being that exporters should not be handicapped in competing for markets abroad by tariff-created higher prices for the materials and components which they purchase. This kind of provision only lessens the direct burden of the tariff for exporters; the indirect effect of protection on the level of exports still remains. In Canada the drawback technique has been carried a good deal further. Various devices including end-use items, class or kind distinctions and Canadian content provisions are used to lessen the impact of the tariff on particular industries, and in some cases special drawbacks for home consumption are provided. These drawbacks which vary from 40% to 99% are listed in Schedule B of the tariff. For example, tariff item 1052 machinery, of a class or kind not made in Canada, when for use in the plants of manufacturers of automobiles, provides for a drawback of 99%; similarly, tariff item 1060 paper of all kinds, when used by the publisher or printer in Canada in the production of periodical publications, provides for a drawback of 60%.

An analogous device, which is sometimes used to lessen the impact of the tariff, is the remission of duties under the Financial Administration Act. By Order-in-Council the government may remit all or part of the duty normally payable on imports of particular goods. This power is frequently employed to relieve hardship and most cases handled are of this kind. Remissions are also used in cases of importation of machinery of a class or kind not made in Canada when used for the production of

goods not formerly made in Canada, or for new important manufacturing establishments. Examples include a continuous strip mill for the Steel Company of Canada, and specialized equipment for Canadian Chemical and Cellulose. This power is also used to encourage large natural resource ventures. For example, remission of duties applied to pipe used in the construction of the Interprovincial, Trans-Mountain, Westcoast Transmission and the Trans-Canada pipelines, and to railway ore cars for the Labrador Iron Ore development. Since imports such as these are not recurrent, the remission device is apparently considered to be more suitable than a formal drawback item. Remissions in excess of $5,000 are shown in *Public Accounts*.

3. "Class or Kind" Distinctions

In the Canadian tariff different rates and different provisions often apply to types of a particular good which are described as of a "class or kind made in Canada" and other types of the same product described as of a "class or kind not made in Canada". Rates are lower or provisions less restrictive if they apply to goods of a "class or kind not made in Canada". The general purpose of this distinction is clear. A duty imposed on a type of good which is not, and cannot readily be, made in Canada may provide little protection, but at the same time raises the price of the commodity to users. The government gains revenue, but it does so only by imposing a burden on all purchasers of the commodity. If the product is one widely used in a number of industries, the production costs of these industries will be increased by the duty they pay on imports of the product, but there may be only a minor redirection of their demand to the domestic industry producing a similar product.

Given these conditions, several alternative policies could have been followed. First, a detailed enumeration could have been given of articles of a kind made or not made in Canada and this would have enabled separate treatment to be accorded the two classes. This is a technique which leads to a proliferation of rates, but it has been the alternative selected in some cases, and it could have been generalized. But clearly, with new products continually appearing and with new Canadian production of commodities formerly not made in Canada, the need for frequent revision would arise. On the other hand, it could have been decided that, given the unwelcome additional complexity resulting from a change of this kind, the game was not worth the candle. This also has been the alternative adopted in some cases. There are a number of rates in the Canadian tariff under which all types of a commodity, including those which with existing rates cannot be economically produced in Canada, are dealt with on a common basis. A burden is thus imposed on all users of certain types of a particular product which, under existing conditions, does not lead to a redirection of demand to the protected industry producing other types of the same product.

A third alternative, one which has been used in a number of cases, has involved drawing the distinction in a general way and turning over the whole problem to those responsible for administering the tariff. The phrases "class or kind made in Canada" and "class or kind not made in Canada" have been introduced into a number of rates; and through legislation and an Order-in-Council passed in 1936 it has been established that goods shall not be regarded as of a class or kind made in Canada unless domestic production reaches 10% of domestic consumption. With this amount of guidance the whole problem has been turned over to the Department of National Revenue, the Tariff Board and the courts to sort out as best they could. As might have been expected, difficulties have arisen in administering the provision; and where sharp conflicts of interest arise and considerable sums of money are at stake, the problem of interpretation has become a serious one.

The most striking example of this nature—one which has received a good deal of attention in recent years—is that provided by the main machinery items 427 and 427a. Tariff item 427 all machinery composed wholly or in part of iron and steel, n.o.p., and complete parts thereof, bears rates of BP 10% and MFN 22½%. Tariff item 427a all machinery composed wholly or in part of iron and steel, n.o.p., of a class or kind not made in Canada, complete parts of the foregoing, bears rates of BP Free and MFN 7½%. Quite clearly it makes a very substantial difference to producers and users of machinery in Canada whether or not a particular type of machinery is classified as made in Canada. If it is so classified, users are faced with rates on machinery imported from MFN countries of 22½% rather than 7½%; if not, Canadian machinery manufacturers who feel that they are capable of producing this type of machinery find that their protection against competition from MFN suppliers is only 7½%. A distinction was introduced in the tariff between machinery of a class or kind made and a class or kind not made in Canada as early as 1930, the change at that time including similar provisions for electrical apparatus and articles and wares of iron and steel. These "not made" items were repealed in the same year, and the class or kind distinction for machinery was not reintroduced until the 1935 United States-Canada Trade Agreement. At that time the distinction only involved a 5% difference between a "made in Canada" MFN rate of 25% and a "not made in Canada" MFN rate of 20%. Under the United States-Canada Trade Agreement of 1938 the spread in the MFN rates was widened to 15%, the "not made in Canada" MFN rate falling to 10%. The war and early postwar reconversion period followed and the full implications of this change did not appear until some years later. A further reduction in rates occurred under the agreement negotiated at Torquay, and new MFN rates of 22½% for machinery made in Canada and 7½% for machinery not made in Canada were introduced effective in 1951 without changing the

spread in rates. In recent years a number of difficult cases relating to definitions of a class or kind have come before the Tariff Board and the Exchequer Court for decision. The Tariff Board is not at present hearing further appeals on "class or kind" until rulings have been made by the higher courts; appeals from Tariff Board decisions are at present before the Exchequer Court and the Supreme Court.

4. Commonwealth Content and Canadian Content Provisions

In order to enjoy the rates of the British Preferential Tariff goods must be *bona fide* the manufacture of a British country, and a substantial portion of the value of the manufactured article must have been produced by industry in one or more of such countries. While the content requirements have been changed from time to time, this is a general provision which has long governed trade among British Preferential countries. Canadian manufacturing industries which exported to Commonwealth countries were required by those countries to achieve a certain portion of Commonwealth content before they could enjoy preferential rates.

In the case of one Canadian industry, the automobile industry, the content notion has been applied to domestic output and certain tariff privileges are accorded firms achieving prescribed minimum content. The automobile schedule provides rates of BP Free, MFN 17½% on automobiles, and also includes lists of enumerated components and parts bearing special rates. One of these lists, appearing under tariff item 438c bears rates of BP Free, MFN 17½%, but carries the condition that if the listed parts are of a class or kind not made in Canada, and if not less than a certain percentage of the factory cost of production is incurred in the British Commonwealth, the parts enter duty free. For manufacturers with an output of over 20,000 automobiles a year 60% content is required, and this falls to 40% for those with output under 10,000. This 60% content requirement for major manufacturers was first established in 1936, raised to 65% in 1938 and reduced to 60% again in 1946. Since virtually no parts or components are imported from Commonwealth sources for inclusion in Canadian-built automobiles, and since an earlier arrangement specified Canadian rather than Commonwealth content, this is generally called the Canadian content rather than the Commonwealth content provision.

The present provision dates from 1936, but a variant of it was introduced a decade earlier. In 1926, when the rate on automobiles (under $1,200) from the United States was reduced from 35% to 20%, a schedule of parts rates was included in the change. A list of enumerated items was granted free entry, while a 25% drawback on materials and parts was allowed if a certain percentage of Canadian content was achieved. Up to April 1, 1927, the requirement was 40% and after that date 50%. The intent of these changes is clear. The 35% rate on auto-

mobiles was unpopular with the public, and a reduction was demanded. This was done, but it was felt that the industry required freer entry of components and parts if they were to produce automobiles in Canada under the reduced rate. To some extent this could be done by granting free entry to parts not made in Canada, and further help could be given by providing a partial drawback on other items. The latter, however, was made dependent upon achieving a certain content with a view to encouraging the production of components and parts in Canada. A number of changes were made in the schedule in succeeding years with higher drawbacks being provided for some parts. In 1936 the drawback arrangement was dropped entirely and in its place free entry was permitted on an enumerated list of parts, if of a class or kind not made in Canada, and if the required content was achieved. This might be regarded as a 100% drawback, although administratively and financially it represented a change.

It is difficult to appraise the significance of the various portions of the automobile schedule. It seems fairly clear that if in 1926 a rate of 20%, and in 1936 a rate of 17½%, had to be regarded as a ceiling for political reasons, the government could help the automobile manufacturers by allowing drawbacks or foregoing revenue on parts and components not made in Canada. The enumerated lists and the class or kind distinctions were no doubt of considerable help to the manufacturers. The effect of the content provision on parts manufacturing is more difficult to assess. Limiting the analysis to the period since 1936, it is known that two of the "Big Three" have operated well above the content minimum in recent years. For the companies in this position the content provision has had a similar effect to a floor price when the market price is above the floor.[1] For one of the Big Three, probably as a consequence of the wider range of models it has produced in Canada and the purchasing policies it has followed, the establishment of the minimum in 1936 and later changes in the Canadian content provision appears to have had some effect on the proportion of components purchased or made in Canada. Some of the smaller producers have also been affected. It may also be true that the increased economies in parts manufacture made possible by content-stimulated purchases have encouraged companies already well above the minimum to purchase some additional parts in Canada. A definitive study of the influence of the Canadian content provision on the development of the automobile and automobile parts industry has not as yet been made, although a fair amount has been published on the question. It is obvious that a sufficiently high content requirement could exercise an overriding influence on parts manufacture in Canada, but the level at which it has been set has restricted its influence. Discussions of the outomobile tariff and its influence on the structure of the industry often appear to put too

[1]It is worth noting that the two companies which submitted briefs to the Commission, Ford and Chrysler, registered no objections to the content provision. The president of the Ford Motor Company gave an affirmative answer when he was asked whether he favoured the Canadian content legislation.

much emphasis on the effect of Canadian content provisions and too little on the contribution of the class or kind distinction and the 25% rate on automobile parts n.o.p.

5. *Other Special Features of the Canadian Tariff*

One special feature of any tariff is the way in which it is administered. In the case of some countries, no description of their tariff is complete without a discussion of the way in which it adds a new dimension to the protection already afforded by rates and special provisions. Canadian tariff administration will be discussed more fully in Chapter 10, and it is enough to point out here that although in the 1930's Canadian tariff administration added very considerably to the protection afforded by the tariff, in general this is not the case today. Indeed, while the Commission heard virtually no complaints about additional restrictions arising from tariff administration, some criticism was forthcoming on the extent to which the problems of dumping and valuation for duty were being met. Section 6 of the Customs Tariff provides that a special or dumping duty may be levied in the case of goods of a class or kind made in Canada "if the export or actual selling price to an importer in Canada is less than the fair market value for duty of the goods as determined under provisions of the Customs Act . . . " Some serious difficulties arise in determining what is the "fair market value" of a good, and it is the contention of some critics that goods are exported to Canada at prices substantially below those charged in the home market of the foreign suppliers without incurring dumping duty. This topic will also be discussed later.

Mention might also be made of Schedule C of the Canadian tariff, the list of prohibited goods. Most of the articles appearing there are the sort of things which normally appear in lists of this kind. Books, drawings, photographs, etc. of a "treasonable or seditious, or of an immoral or indecent character", base or counterfeit coin, animals suffering from contagious diseases, reprints of Canadian copyrighted books, goods produced by prison labour, posters depicting scenes of crime and violence, etc. There are two or three, however, which do not fall into this category. One of these is oleomargarine; another, used or second hand airplanes; and a third, used or second hand automobiles. The latter two raise the question of why special treatment should be accorded these products. A good deal of used or second hand machinery of a variety of kinds enters Canada in a normal way. In the case of automobiles the prohibition was introduced in 1933 when used cars were entering Canada on a considerable scale, and this depression-born measure has survived up to the present. The justification for special treatment for automobiles rests upon the observation that the price of used cars of a particular year and model is ordinarily lower in the United States than that of a similar automobile in Canada by more than the amount of the normal duty and sales and excise taxes. This can be explained by the higher premium placed by American consumers on newness

and, if the usual automobile rate were applied, there would be a considerable northward movement of used cars. Consumers, particularly those with low incomes, would presumably welcome this, but the production of new automobiles would be significantly reduced. Some years ago when, because of GATT obligations, consideration was given to the removal of the prohibition on used automobiles, it was estimated that a rate very much above the standard automobile rate would be required to achieve the same prohibitive effect as existing legislation.

The General Structure of Rates

While there is a wide dispersion in rates in the Canadian tariff, there are few very high ones and virtually no rates which are prohibitive. It is true that some specific rates are prohibitive when applied to low-valued goods under a particular tariff item, but it appears that there are no rates in the Canadian tariff which are so high as to exclude all trade under the item. As indicated earlier, there are some special cases such as butter, for which direct controls are used which at times are prohibitive, but examples of this kind are few and far between. There are a small number of rates which are very high by any standards, but in almost every case the items involved are relatively unimportant. Some very high rates may be concealed behind the averages for particular items. For example, tariff item 232 glue n.o.p. bears rates of BP 15% and 2¢ per pound, and MFN 22½% and 5¢ per pound. Some cheap glue may be priced as low as 7¢ per pound, and this would yield a very high ad valorem equivalent rate. In 1954 the average ad valorem rate on imports of powdered and sheet glue from the United States was 54%. Leaving aside rates on items containing alcohol[2] (most of which have offsetting domestic taxes), only one rate was found in the Canadian tariff with an ad valorem equivalent rate of over 100% applying to all dutiable imports under the item. The item was 475a matrices for stereotypes which carries rates of BP Free, MFN ½¢ per square inch. This gives the appearance of being a very low rate, but in 1954 dutiable imports from the United States valued at $4,611 paid duties totalling $8,647 or an ad valorem equivalent rate of 187%. This is perhaps best described as a minor anomaly arising from valuation procedure.

Examples of ad valorem equivalent rates in excess of 50% covering all dutiable imports under an item are hard to find. Tariff items 506a clothes pins, and parts thereof, bears rates of BP Free, MFN 20¢ per gross. In 1954 imports of clothes pins from Denmark, Sweden and the Netherlands valued at $62,000 paid duties of $34,700 or an ad valorem equivalent rate of over 55%. Tariff items 43a (1) and 43a (2) covering dried whey and powdered milk, bear rates of BP 2½¢ per pound and MFN 3½¢ or 4¢ per

[2]At least one of the alcohol sub-items, tariff item 156f as it applies to ethyl alcohol for certain uses, does not have offsetting domestic duties. Since this type of ethyl alcohol is valued between 60c and $1 per proof gallon, and the duty is $18 per proof gallon the ad valorem equivalent rate is of the order of 2,000%,

pound. In 1954 there were imports of dried whey and dried buttermilk valued at $30,900 from the United States which paid an average ad valorem equivalent rate of 59%.

It is not until average ad valorem equivalent rates of around 40% are reached that important commodities begin to appear. For example, tariff item 572 oriental and imitation oriental rugs or carpets and carpeting, carpets and rugs n.o.p., bears rates of BP 25% and MFN 25% and 5¢ per square foot. In 1954 the average ad valorem equivalent on carpets n.o.p. from the United States was 40.5%. Tariff item 561 woven fabrics wholly or in part of synthetic textile fibres or filaments, not containing wool, nor including fabrics in chief part of silk n.o.p., bears rates of BP 22½%, MFN 25% plus 30¢ per pound. In 1954 the average ad valorem equivalent rate on $17.6 million worth of imports was 38%. Examples of ad valorem rates in the neighbourhood of 40% are fairly limited, but the number begins to increase quite rapidly as the level falls to 30%—35%. Tariff item 651 buttons of all kinds, covered or not, and button blanks other than in the rough, n.o.p., recognition buttons, and cuff or collar buttons, bears rates of BP 20% and 5¢ per gross and MFN 25% and 5¢ per gross. In 1954, dutiable imports of $1.1 million paid duties at an average ad valorem rate of 33%. The highest simple ad valorem rate to which there are no offsetting excise duties appearing in the MFN schedule of the Canadian tariff is 35%. Examples include tariff item 561a covering coated or impregnated fabrics of synthetic textile fibres or filaments, tariff item 568 knitted garments, knitted underwear and knitted goods n.o.p., and smaller items such as tariff item 107 preserved ginger. Ad valorem rates decline by intervals of 2½% and there are a number of ad valorem MFN rates at each of the intervals from 35% to 5% with a heavy concentration at or below the rate of 22½%.

It is clear from the above discussion that while there is a considerable dispersion in the rates appearing in the Canadian tariff, very high rates are rare and averages may therefore be a good deal less misleading than they are in the case of the tariffs of other countries. Nevertheless it is important to get behind the averages. This would be of little help, however, if it involved an enumeration of a very large number of the rates in the schedules. Fortunately, this is not necessary. If a way could be found of identifying the "key" rates in the Canadian tariff, it would be possible to reduce this complexity to manageable proportions. But what are the key rates of the tariff? It might appear that they are the rates which apply to substantial quantities of imports. If this were the case, key rates could be identified by referring to import statistics. Trade coverage would be the test. For some purposes this may be a useful criterion. If, for example, additional protection were being contemplated, it would make sense to ask which rates allow a considerable amount of imports of a type which could be produced in Canada. These rates are the only ones for which an increase holds out

much promise of a considerable reduction in imports, although even in these cases careful consideration would have to be given to secondary effects on other protected industries.

If, however, the primary interest is the extent of protection afforded by the present tariff, trade coverage can be misleading. Some rates which protect a substantial quantity of domestic production are sufficiently high to exclude all but a limited amount of imports. If volume of trade is the criterion, the significance of these rates in terms of the protection they afford will be underestimated. Thus, there are two categories of rates which can be described as the key rates: Those which permit a large quantity of imports and those which protect a large volume of domestic production. To a considerable extent these categories overlap. Many rates which apply to a considerable amount of trade also protect a substantial quantity of domestic production. It is the ranking rather than the selection of key rates which tends to differ with a change in the criterion. For the purpose of this study, the extent of protected production is more fundamental, and this is the measuring rod which has been given the greater emphasis.

A number of rates in the Canadian tariff have, and can have, little or no protective significance. For example, the rates on bananas, coffee, tea, cocoa, spices and coconuts enable Canada to extend preferential treatment to British countries; but, except to the extent that some of them shelter minor processing activities, they have little protective significance. There are many other rates which are protective, but apply almost entirely to the activities of a single small firm or small industry. An investigation would probably reveal that there are at least a hundred items in the Canadian tariff carrying 200 or 300 rates which could be reduced to zero with much less impact on the economy than would result from a reduction of a single key rate, for example, the ruling automobile rate 438a. In short, while in the printed version of the tariff all rates are equal, in fact—to use Orwell's expression—some rates are more equal than others. The rates or schedules protecting the textile, primary iron and steel, chemical, automobile, industrial machinery and electrical manufacturing industries might well be described as the pillars of the Canadian tariff. Of course some of these industrial groupings combine a number of heterogeneous activities, and if some of these loose alliances were fragmented into components with clearly related activities, the component parts would often be smaller than many of the protected industries which rank behind the big five or six. For example, industries such as rubber goods, furniture, leather footwear, tobacco products, paper products, railway rolling stock, manufactures of iron and steel, some of the food processing industries, and some parts of the clothing industry provide more protected production than clearly demarcated segments of the very large protected industries.

A few rates on agricultural commodities are of considerable importance. As pointed out elsewhere, some of these rates, notably those on

cheese and butter, have been supplanted either wholly or in part by prohibitions or informal restrictive agreements. For many years the Canadian tariff has contained a number of tariff rates on agricultural commodities many of which have had little or no effect on agricultural prices. A high proportion of Canada's imports of agricultural products consists of tropical commodities which cannot be produced in Canada, and rates on these products are of significance only as a source of revenue. Some of the important agricultural products which at present receive and use a significant measure of protection are butter, cheese, sugar beets, some poultry products and some fruits and vegetables.

In order to point up the distinction between the rates which really matter and those which are of less importance, an attempt has been made in Table 9 to draw together some of the key rates of the Canadian tariff. Since a list of this kind is only useful if it is short, and since the difference between rates is sometimes fairly minor, a number of rates which have not been included might well have found a place in a schedule of this kind. What can be said, however, is that if the rates included in this list were reduced to zero, the amount of protection remaining in the Canadian tariff would be so small that controversy over the tariff would dwindle into insignificance. On the other hand, if some of the rates included in this list were doubled[3] the Canadian tariff would become a very high and restrictive one.

Table 9

SOME KEY RATES OF THE CANADIAN TARIFF[a]

Tariff item	Description	BP	Ad valorem equivalent	MFN	Ad valorem equivalent
18	Butter				
	Australian Trade Agreement .... 5¢ New Zealand Trade Agreement .. 5¢	8¢	Prohibition	12¢	Prohibition
23	Cocoa, chocolate and confectionery	10%		20%	
45a	Prepared cereal foods	20%		20%	
87	Fresh vegetables—out-of-season	Free		10%	
	—in-season ... per lb.	Free		1¢–3¼¢	
89	Canned vegetables .... per lb.	Free		1½¢–2¢	
90c	Vegetable juices	12½%		20%	
90e	Frozen vegetables	10%		17½%	
91	Soups	15%		20%	
92	Fresh fruits—out-of-season	Free		10%	
	in-season .... per lb.	Free		1¢–2¢	
134	Refined sugar .... per cwt.	$1.09		$1.89	35%
135	Raw sugar .... 96 degrees .... per cwt.	$0.28	7%	$1.28	32–38%
141	Candy, jelly powder, custards, etc.	12½%		22½%	

[3]Account would have to be taken of the consequential effects on other protected industries arising from an increase in the rates on some commodities. For example, if the rates on types of machinery used by protected industries were doubled, this would improve the position of the industrial machinery industry, but worsen the competitive position of protected users of machinery.

Continued

Tariff item	Description	BP	Ad valorem equivalent	MFN	Ad valorem equivalent
143a	Cigarettes .... per lb.	$2.00 and 15%		$2.00 15%	over 15%
178	Advertising matter .... per lb. but not less than	5¢		10¢ 25%	25%
192	Prepared roofings, etc.	15%		22½%	
197	Paper of all kinds	15%		22½%	
199	All manufactures of paper	17½%		25%	
199b	Paperboard containers	4/5¢	1%–3%	20%	
280t	Chemicals and drugs not produced in Canada	Free		15%	
220a(ii)	Chemical compounds and preparations	25%		25%	
228(i)	Toilet soap	15%		22½%	
(ii)	Soap powders	15%		20%	
234	Cosmetics	15%		22½%	
248	Paints .... per gal.	75¢		85¢	20%
249	Varnishes, lacquers, etc. .... per gal.	15¢ and 5%		15¢ 15%	20%
267d	Crude petroleum for refiners	Free		Free	
269(i)	Gasoline .... per gal.	¾¢		1¢	6%
287	All china tableware	Free		25%	
318	Window glass	Free		7½%	
321	Window glass, plate glass n.o.p.[b]	Free		7½%	
351	Covered wire and cable	20%		20%	
352	Manufactures of brass and copper	20%		20%	
354	Manufactures of aluminum	15%		22½%	
378d	Hot rolled bars of iron and steel	Free		12½%	
380b	Hot or cold rolled plates	Free		$6.00	6–7%
381a	Hot or cold rolled sheets	7½%		20%	
383b	Sheets, plates, etc., coated with tin	15%		15%	
383c	Sheets, plates, etc., coated with zinc	7½%		17½%	
384	Hot rolled skelp	Free		5%	
385	Sheets, plates, strip, etc., not less than 5¢ per lb.[c]	Free		12½%	
388	Structural steel not less than 35 lbs. per yd. (per ton)	Free		$3.00	2.5%
388b	Structural steel n.o.p. (per ton)	$4.00		$7.00	5.5%–6.5%
388d	Structural steel drilled or manufactured	17½%		25%	
397a	Pipes and tubes (not more than 10½ inches in diameter)	15%		27½%	
397b	Pipes and tubes (more than 10½ inches in diameter)	10%		15%	
401	Iron or steel wire n.o.p.	15%		20%	
414	Typewriters	Free		20%	
414c	Office machinery	Free		10%	
415	Vacuum cleaners	5%		20%	
415a	Electric refrigerators	17½%		20%	
415b	Washing machines	15%		22½%	
415d	Sewing machines	5%		15%	

Continued

Tariff item	Description	BP	Ad valorem equivalent	MFN	Ad valorem equivalent
427	Machinery n.o.p.	10%		22½%	
427a	Machinery not produced in Canada	Free		7½%	
428c	Engines or boilers	15%		20%	
428e	Diesel and semi-diesel engines	Free		20%	
429	Cutlery of all kinds	Free–15%		7½%–25%	
430	Nuts and bolts per cwt.	25¢		50¢	–17.7%
		and 7½%		17½%	
430e	Nails n.o.p.	15%		27½%	
433	Bathtubs, etc., of iron and steel	5%		20%	
434(2)	Locomotives	15%		25%	
438	Railway cars	15%		22½%	
438a	Automobiles, trucks and buses	Free		17½%	
438b	List of automobile parts				
	(i) Not made in Canada	Free		Free	
	(ii) Made in Canada	Free		17½%	
438c	List of automobile parts and components. If not made in Canada and content achieved	Free		Free	
438d	List of parts for trucks, etc. If not made in Canada and content achieved	Free		7½%	
438e	Parts n.o.p.	Free		25%	
443	Cooking and heating apparatus	15%		22½%	
445	Electric light fixtures and appliances n.o.p.	20%		22½%	
445c	(ii) Electric telephone apparatus	10%		22½%	
445d	Electric wireless or radio apparatus	Free		20%	
445f,g,k	Electric dynamos, motors, apparatus, etc.	15%		22½%	
446a	Manufactures of iron and steel n.o.p	10%		22½%	
506	Manufactures of wood n.o.p.	17½%		20%	
519	Furniture	15%		25%	
522c	Cotton yarn	15%		17½%	–20%
	and per lb.			3¢	
523	Cotton fabrics	15%		15%	–19.5%
	and per lb.			3¢	
523a	Bleached cotton fabrics	17½%		17½%	–20%
	and per lb.			3¢	
523b	Printed cotton fabrics (over 80¢ per lb.)	17½%		17½%	–20%
	and per lb.			3¢	
532	Cotton clothing	25%		25%	
	Ex. tablecloths, sheets, etc.	22½%		22½%	
554b	Wool fabrics	20%		27½%	
	and per lb.	12¢			
	The ruling rate on wool fabric from the U.K. is the BP Specific maximum of 50¢ per lb.		–13.5%		
555	Wool clothing	25%		27½%	

Continued

Tariff item	Description	BP	Ad valorem equivalent	MFN	Ad valorem equivalent
558b,c,d	Synthetic yarns of various types				14%–24%
561	Synthetic fabrics	22½%		25%	–38.5%
	and per lb.			30¢	
567a	Synthetic textile clothing	20%		27½%	
568	Knitted goods n.o.p.	20%		35%	
572	Wool carpets	25%		25%	35%–40%
	and per sq. ft.			5¢	
573	Linoleum, oil cloth, etc.	15%		27½%	
611a	(1) and (2) Boots and shoes	20%		27½%	
617	Rubber boots and shoes	Free		22½%	
618	Manufactures of rubber	15%		20%	
618b	(2) Tires and tubes	20%		22½%	
619a	Rubber clothing	22½%		27½%	
624a	Dolls and toys	5–10%		25%–30%	
647	Jewellery	20%		30%	
653	Brushes	15%		25%	
703b	Tourist exemption, $100 once every four months	Free		Free	
711	All goods not enumerated	15%		20%	
848	All apparatus for oil development	Free		Free	
901	Synthetic resins	Free–7½%		Free–7½%	
908	Manufactures of synthetic resins	15%		20%	

Prohibited goods

1204 Oleomargarine

1215 Used or secondhand automobiles

[a]This is not a tariff schedule. The terminology used is not that of the tariff. Descriptions have been abbreviated and in some cases paraphrased. The third column has been omitted for the reasons discussed in the text. For precise information, reference should be made to the Customs Tariff, the Customs Act, the Regulations of the Department of National Revenue, Tariff Board decisions and the expert knowledge of customs brokers and officials. The ad valorem equivalents shown refer to 1954. When one of the rates shown under an item is much more important than the others it has been italicized.

[b]n.o.p. is the abbreviation for "not otherwise provided for".

[c]In recent months following the increase in steel prices this has become the ruling rate for sheet, plate, hoop, band or strip of iron and steel.

9

PRINCIPLES OF TARIFF MAKING

An obvious question comes to mind after a description has been given of a complicated device such as the Canadian tariff. Is the Canadian tariff in fact a co-ordinated whole, or is it, in spite of its impressive appearance, little more than a haphazard collection of rates, established over a period of years in response to a variety of pressures? This is not a question to which there is an obvious answer but one comment can be made with a fair degree of certainty. If the structure of the Canadian tariff were indeed based on a consistent set of principles it would be unique among the tariffs of the world. A reading of tariff history suggests that the evolution of the Canadian tariff has been sufficiently similar to that of other tariffs to raise some doubts on this score; but before this question can be answered another one must be asked. Is there such a thing as a rational, consistent tariff structure which could be used as a yardstick in evaluating the existing structure of the Canadian tariff?

The question of what constitutes a rational consistent tariff is one which has received very little attention from economists, perhaps because many of them have concluded that a fully rational tariff is a zero tariff, or something approximating a zero tariff. Faced with any given tariff structure they have generally been concerned with how it can be reduced, rather than how it can be reconstituted. For different reasons, there has also been a reluctance on the part of those with practical experience in tariff making to devote very much attention to this problem. Knowing how tariffs have been made in the past, are made today, and are likely to be made in the future, they have had little confidence that anything as highly political as the tariff could be ordered on the basis of a set of principles. This lack of interest on the part of economists and tariff experts has not discouraged attempts to wrestle with the problem. Some of these attempts have had their origin among supporters of tariffs who have correctly concluded that if a more "scientific" method could be devised it would give the tariff a respectability which it lacks under traditional methods of tariff making. Other attempts have been made by those who have simply felt that there ought to be some better way of handling these matters than the existing technique. In general these attempts have proved unsuccessful for a variety of reasons.

Perhaps the best-known proposal of this kind—one in fact which has been called the *scientific tariff*—calls upon tariff makers to establish rates which will equalize domestic and foreign costs of production. The Canadian Tariff Board Act requires that the Board shall, at the request of the Minister, make enquiry as to "the cost of efficient production in Canada and elsewhere, and what increases or decreases in rates of duty are required to equalize differences in the cost of efficient production". One of the briefs submitted to the Royal Commission makes a similar point in rather different language: "Efficient Canadian manufacturers should always have an opportunity to sell in the domestic market on a fair competitive basis with imported goods".

It is evident that the terminology used in these injunctions is rather loose and open to various interpretations. What is being discussed is not costs of production in Canada and foreign countries, but rather the delivered duty-paid price of foreign goods and the price which must be charged by Canadian producers of comparable goods if they are to remain in business over the long run. Something can be done in the way of answering a question of this kind, although the difficulties should not be underestimated. A price high enough to provide a substantial profit for some firms in an industry might be ruinously low for other firms. One way of discovering an appropriate rate is by a trial and error method. Rates can be set and the result observed in terms of the market share. Once a rate has been discovered which is just high enough to keep the foreign share of the market low or non-existent, rates higher than this would clearly be unnecessary. Higher rates might merely encourage domestic producers to combine and raise the domestic price to the level of the foreign price plus the higher tariff. This will not lead to more, but rather less, domestic production of the commodity and may tend to bring the whole protective system into disrepute. The element of rationality in this proposal for equating domestic and foreign prices is that it sets (in a rough way) the maximum rate required to eliminate all, or virtually all, imports of particular commodities.

In practice this principle has been of little or no help in establishing a tariff structure. It is true that in one sense it differentiates among industries. Export industries would presumably not be given a tariff while other industries would be given varying rates depending on their ability to compete. In another sense, the principle does not discriminate at all. If the principle is applied strictly, every industry regardless of its ability to compete can apparently expect to be a successful candidate for protection if it is physically able to produce the commodities in question. If the general rule is equalization of prices, there is no reason why some rates should not be as high as 100% or for that matter 500%. About the only country which in recent decades has been prepared to come close to accepting a system which restricts imports to this extent has been the

U.S.S.R. For important periods of its history the Soviet Union rigidly limited trade with the outside world regardless of the costs imposed. No democratic country has ever been prepared to go this far. While, therefore, cost equalization is frequently mentioned as an underlying principle of tariff making it is in fact never applied in a comprehensive way.

It is true that at least in Canada it was never intended that the principle should be applied in a comprehensive way. After all, it is only "efficient production" which is to be protected. But this begs the whole question, since the application of the principle depends upon the interpretation placed upon the word "efficient". Unless some precise definition is offered for the term "efficient" it means all things to all men. If interpreted loosely to include all Canadian manufacturers who are able to produce a commodity it could mean that the continued existence of any imports of the commodity would be regarded as proof that the process of "cost equalization" had not been carried far enough. On the other hand, if the definition of "efficient" is narrowed to include only those capable of meeting foreign competition on an open market basis, the principle of "cost equalization for efficient production" would call for a zero tariff. Presumably it is intended that the definition of "efficient production" should occupy some intermediate position between these two extremes, but in the absence of some guidance on the tests which should be applied, the proposal cannot be implemented in a practical situation.

While the principle of cost equalization in this unqualified form breaks down in practice it at least has the virtues of generality and simplicity, and contains some of the central elements in the solution suggested later in this chapter. Some other formulations of rules for tariff makers are so vague that little can be done with them. Still others are based on a misinterpretation of the economic effects of a tariff, or offer such a variety of aims that they are of little use in providing guidance to tariff makers. An example of the first type is provided by a resolution put forward in the House of Commons over forty years ago when the appointment of a tariff commission was first considered.

> "That is a scientific tariff which could ensure to the people of Canada the ordered use and regulated employment of our great resources of river and lake, sea and land, that will ensure the manufacture within Canada of all those articles which can be economically produced in Canada, giving employment to Canadian workmen at wages at least equal to those paid to workmen in competing countries, to the end that Canadian farmers may produce the food products necessary to feed the Canadian workman."[1]

A similar observation might be made of the following statement which appears in one of the briefs to the Commission:

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[1]Quoted in *Robert Laird Borden, His Memoirs*, p. 337.

> "An adequate Customs Tariff structure should be established which is fair, just, reasonably balanced, impartial and in the national interest."

There would probably be general agreement that a statement along these lines is of little help in deciding whether the rate on synthetic fabrics should be reduced and the rate on certain types of steel raised.

Other examples could be given drawn from the tariff history of Canada and other countries of attempts to formulate principles of tariff making. Some are worse than others, just as some tariffs are worse than others. They are all, however, open to the objection that they fail to provide the kind of guidance which tariff makers require to set relative rates, or they provide a type of guidance (as in the case of cost equalization) which could be applied but which is not acceptable politically.

When the question of principles of tariff making was first raised in connection with the Commission's work, the immediate response was that the search for principles was a fruitless one. Previous attempts in Canada and other countries had met with little success and there seemed no reason to suppose that a positive result would be forthcoming from a review of such a well-tilled area of study. Further reflection, however, revealed that given certain assumptions the problem of constructing a consistent tariff structure could be solved in principle, and this solution might throw some light on the practices which might be followed by tariff makers.

An attack on the problem can be made most effectively by first considering it in the most simple possible form and moving by gradual steps to the more complex conditions of the real world. Under ideal conditions a rational consistent tariff would be one which would have a unique set of rates which would be the "correct" rates for all commodities. Given that there was a "correct" set of rates, it would be the function of a tariff authority to gather and process as much information as possible in its efforts to discover these rates.

The conditions necessary for a result of this kind, namely a unique set of rates which is the "correct" set, can be summarized in the following terms. First of all, it must be assumed that a tariff is desirable. Those who support a tariff on the grounds that it promotes diversification, or increases the extent of national control of economic instability, or fosters economic independence and thus political independence, are in effect arguing in favour of a reduction in the relative importance of foreign trade in the country's economy. A tariff will certainly accomplish this purpose. The direct effect of a tariff is to reduce imports, and if imports fall exports will also decrease, unless there are offsetting capital movements. The analysis of the preceding chapters has shown that the alleged economic benefits to be derived from a reduction of foreign trade are in

general illusory, but if for social or political reasons it is felt that a reduction in foreign trade is desirable, a tariff can certainly be counted upon to achieve this result. It is equally certain, however, that a substantial reduction in foreign trade will involve a cost to the economy. If cost were no object then clearly tariff makers could merely raise rates to a level sufficient to exclude all imports. But cost is always a factor and unless tariff makers are given some information on the cost which will be acceptable they are not in a position to establish a unique set of rates. Indeed, there will be a set of rates which will be "correct" rates for each amount of costs which the country is prepared to tolerate. Unless, therefore, the tariff makers are given some indication of the cost which is regarded as acceptable they will be in the position of a spending organization without a budget. If they are told that they must not spend too much, but are not given any clear indication of what is regarded as too much, they will not know which of a number of sets of rates is the correct one.

The process can perhaps be made somewhat clearer by recurring to the parallel between the tariff and a set of subsidies. If subsidies are used rather than a tariff, the subsidy authority would need to be told how much it was permitted to spend. If the allotment of funds were limited to $10 million the subsidies used to encourage import replacing production would be small. If the amount were ten times as large, or $100 million, the subsidy authority could afford to be a good deal more generous, and if one hundred times as large, or $1 billion, the appropriate subsidies would be correspondingly larger. In short, without a budget the subsidy authority would be unable to reach a decision on the appropriate scale of subsidization. This is equivalent to the condition that the tariff authority must be provided with instructions on the maximum cost which is acceptable.

While a maximum economic cost is a necessary condition if the tariff authority is to be able to reach decisions on "correct" rates, it is not a sufficient condition. As indicated above it is also essential that those responsible for the tariff receive clear cut instructions on the aims of the tariff. The simplest and most straightforward set of instructions they could be given would be to obtain the maximum possible amount of import-replacing production which their budget permits. In other words their function would be to reduce foreign trade by the maximum possible amount within the limits imposed by their allowance of an acceptable cost for the tariff. This might appear to be a rather unusual objective, but, given the assumption that a tariff is desirable, an objective of this kind follows logically. Suppose a decision were taken that a tariff or a system of subsidies were desirable as a means of promoting national unity and independence. It might be felt that in the absence of some artificial encouragement to trade among the various regions of the nation, the country would lack a secure economic foundation. Given a broad aim of this kind, the object is to

discourage international trade and encourage inter-regional trade. The only question which would be relevant when an industry applied for increased protection would be whether the extra cost entailed in assisting this industry would give a higher yield in terms of import-replacing production than that available in alternative industries.

It is possible to conceive of an investigation conducted, let us say, by a Royal Commission in conjunction with the Tariff Board, which would establish a hypothetical set of rates which approximated a consistent tariff within the given assumptions of a single objective and a maximum cost. It might appear that with simple instructions of this kind the task of such a Commission would be reduced to a mechanical problem requiring only a limited amount of information and a small staff. This is far from being the case. In order to perform its function in even a moderately effective way, the Commission would require an immense amount of information about domestic industries and their competitors abroad. Commodity experts with an intimate knowledge of individual industries and competing industries abroad would be needed who could estimate, at least approximately, the way in which a domestic industry's share of the market would be affected by given changes in tariff rates. The Commission would also require analysts who could trace through the complicated inter-relations among the assisted industries. For example, if a reduction were to be made in one of the rates affecting industry A this would lead to a fall in its output, and this in turn would affect the market for other protected industries which supply some of A's materials. The task of co-ordinating the rates for all industries would be a major one. A high proportion of the information required could be obtained from business sources, but it would be essential for the Commission to be in a position to analyze this information independently. Every group of producers who received a rate in excess of the measure of protection required to stimulate a given amount of import-replacing production would tend to use up some of the cost allowance which could have been used to secure additional protected production elsewhere. The Commission, therefore, recognizing that any individual firm's interest would to some extent be competitive with the interests of protected industries generally, would need to examine all evidence very critically.

If such an investigation were carried out and a structure of "correct" rates established, the result could be described as constituting an orderly, consistent tariff structure on the basis of the criterion adopted. With continually changing conditions this set of rates would in time become out of date, but if there were a willingness to accept the highly simplified principles outlined above, the constructed schedule could be used to evaluate the balance or lack of balance of the existing tariff.

Any attempt to predict in any detail the results which might be yielded by an investigation of this kind would be hazardous. Nevertheless a

simple reference to the schedule of "key" rates given in the last chapter, and a cursory reading of the material contained in Appendix A is enough to suggest that import-replacing production is bought at a much higher price in some industries than in others. There seems little doubt that a schedule of rates based upon the highly simplified assumptions of a maximum encouragement to import-replacing production at no higher cost than at present would call for substantial reductions in some rates and substantial increases in others.

This conclusion cannot be reached simply by assuming that the inquiry would reveal that all rates on end products over, let us say, 17½% should be reduced, and rates of under 17½% should be increased, to secure an orderly consistent tariff. There would certainly be a tendency in this direction but only a tendency. The reason why such a simple technique is inadequate can be demonstrated along the following lines. Suppose two industries A and B, with A importing the materials on a free basis at world prices and B purchasing its materials from some other domestic protected industries. Assume that A requires a 10% tariff on its end product in order to obtain a high share of the domestic market. Its total output sells for $11-million, or 10% above the world price, while it imports $5 million worth of materials for incorporation in the final product. Because of its large input of materials obtained at world prices, industry A's costs on its manufacturing process can exceed those of its foreign competitors by 20%. Assuming that in the absence of a tariff there would be no domestic production of this commodity, the country has obtained $6 million worth of import-replacing production at a cost of $1 million. Industry B, on the other hand, uses materials which are subject to duty and produced by domestic protected industries. It requires a 20% rate to obtain a high share of the domestic market. Its total output sells for $12 million or 20% above the world price, while it purchases $6 million worth of materials from domestic protected industries which in turn rely entirely on domestic sources of supply. These materials are subject to a duty of 20% and could be obtained from abroad for $5 million. Industry B's costs on its manufacturing process can exceed those of its foreign competitors by 20%. Assuming that in the absence of the tariff there would be no domestic production of the final commodity and hence no purchases by this industry from the protected material suppliers, the country has obtained $12 million worth of import-replacing production at a cost of $2 million. Since the rates of import-replacing production to cost is as high in B as in A, industry B is as strong a candidate for protection as industry A in spite of the fact that the rate it requires is 20% while that of A is only 10%. When the difference in rates is very wide, however, and there are not sufficiently great compensating differences in the sources and quantity of purchased materials, then it is valid to assert that end products with high rates (which are

reflected in high prices) in general represent higher cost protection than those with low rates.

There is nothing particularly new and startling about the above observations. Those who have participated in the process of tariff making have been aware of considerations of this kind. Indeed, it could be argued that over the course of the last twenty odd years some important steps have been taken towards a more orderly tariff structure of this kind. In this period, which has been one of tariff reductions, there has been an attempt, within the bounds of what is currently acceptable, to eliminate very high rates from the tariff and a rough upper limit has been set on rates introduced for new commodities. This has had the effect of removing virtually all the very high rates and has substantially reduced the number of important rates over 30%. The reasons why this process has not gone further can perhaps throw some light on the difficulties and limitations likely to be encountered in any thoroughgoing revision of the tariff at present.

It might be felt that in part the failure to carry this process further can be attributed to an unwillingness to accept the highly simplified objective of a maximum amount of protected production for a given cost. There are many who would argue that a distinction should be drawn among various types of protected industries with a higher value being placed on some than on others. If such distinctions were drawn the resulting tariff structure would clearly differ from the structure resulting from a straight application of the maximization principle. There has clearly been one overriding principle of differentiation which has played an important part in the recent period and, indeed, in every period in which tariff revisions have been attempted. This principle might be said to derive from the law of inertia, which in many respects seems to characterize the economic and political universe to almost the same degree as the physical. In tariff making it has lead to the general rule that industries which have once been given a substantial degree of protection should continue to receive it unless there are compelling reasons for withdrawal. This principle has obviously not prevented all tariff reductions but it has acted as a significant brake on the reduction of a number of high rates. If the reduction of a high rate would clearly have the effect of imposing a painful adjustment on the industry affected then a reduction has in general not been made.[2] This has meant that a number of high rates which would otherwise have been candidates for significant reductions have been left untouched or altered in only a minor way. Given the general view during the recent period that the level

[2]There have been several occasions, it is true, in which the erosion of a specific rate through price increases has brought painful adjustments and no offsetting action has been taken. Changes of this kind, however, can (at least formally) be attributed to factors outside the direct control of government. Moreover, it is easier for the authorities to do nothing to offset a decline in protection which occurs as a result of changing prices, than to do something positive to effect such a decline.

of protection should decline rather than rise, this has in turn led to a strong unwillingness to raise those rates which might otherwise have been candidates for increases. If the general level of protection is to remain stable or decline, then one group of rates cannot be increased significantly unless another group of rates can be reduced. Downward inflexibility in some rates has been matched by upward inflexibility in others, and this has limited the changes in the structure of the tariff which have occurred over the past two decades.

Any future attempt to make a thoroughgoing revision of the structure of the tariff without a major upward change in the general level of protection will encounter the same rigidities. It should therefore be recognized that any such revision would necessarily have to accept certain limitations imposed by the existing situation. A particular industry may have inherited a set of high rates from the past and may clearly be a relatively expensive source of import-replacing production compared with the available alternatives. The maximization principle might call for a substantial reduction in this set of rates while at the same time calling for added encouragement to the output of import-replacing production in some other industry. A change of this kind may be almost as difficult to make as a reduction which is part of a general cut in the tariff. The increased rates for other industries may provide little or no benefit to the labour and capital of the industry which must adjust to the reduced rates. If past experience is any guide a change of this kind could only be made if extended over a long period and, even then, might not be regarded as acceptable.

This does not mean that a revision of the tariff cannot be made within the limits likely to be imposed. The fact that the structure of the tariff cannot be reconstituted along "optimum" lines should not discourage useful work which can be done in this direction. The best should not be allowed to become the enemy of the good. The improvements which can be made are of several kinds. There has not been a general revision of the tariff since 1907, and while there has been a good deal of patching and shoring up over the course of the last fifty years, much remains to be done. Some sections of the tariff need to be rewritten, with some old items eliminated, new items introduced and existing items reworded. It has sometimes been urged that when revisions of this kind are occurring a serious effort should be made towards simplifying the tariff by reducing the number of items. It is evident from the analysis of the previous chapter that the Canadian tariff is highly complex and, if simplified, might be easier to administer and more readily understood by the general public. It must be recognized, however, that a price must be paid for simplification. Much of the complexity of the tariff arises from the drawing of distinctions between products which appear to require different treatment. There are often gains to be had in terms of tariff efficiency from according separate treatment to such

products, and these gains would be lost if use were to be made of a blunter instrument.

In addition to changes in terminology and classification, there are other improvements which could be made. Some of the sections of the tariff are badly in need of a thorough rewording of the structure of rates covering various products of the same industry. In this narrower context there is greater freedom of action than in rate revisions affecting the general level of protection of different industries. Within an industry, rate reductions which inhibit the growth of output of one product may be offset by rate increases which permit an expansion in the output of some other commodity produced by the same industry. Changes of this kind are often supported by the industry itself.

On occasion, revisions of the structure of rates will raise the issue of specific versus ad valorem rates. Since price increases lead to a fall and price reductions to a rise in the level of protection afforded by given specific rates, while ad valorem rates are unaffected by price changes, their relative merits are rarely discussed in an objective way. When prices are falling, those favouring freer trade deplore the existence of specific rates, but when prices are rising those favouring protection are bitter in their denunciation of specific rates which no longer provide the level of protection envisaged at the time of their enactment. In the recent period of rising prices the effect has all been in one direction, and the criticism has tended to be correspondingly one-sided. In the past specific rates were often preferred because they eliminated problems of valuation and provided greater stability of revenue at times when import prices were falling. These considerations have less importance today, and a reference to the schedule in the previous chapter indicates that only a few of the important rates in the tariff still retain a specific feature. It is likely that the uncertainty associated with specific rates in a time of changing prices will lead to their gradual elimination except in a few special cases.

The task of tariff revision is a continuing one. For some industries revised schedules may serve for a fairly long period without the development of anomalies and a general lack of balance. For other industries there may be a need for more frequent changes. Unless a decision is taken to alter the existing pattern of Canada's international obligations, the necessity of re-negotiating rates which are bound to other countries will set some limits both to the speed and the extent of the revisions which occur. Under the present system net increases in protection for one industry can often only be purchased at the price of net decreases elsewhere in the tariff or net increases in the barriers facing Canada's exports.

10

OTHER INSTRUMENTS OF COMMERCIAL POLICY

So far this study has been devoted almost entirely to the Canadian tariff, although reference has frequently been made to the repercussions of changes in Canadian tariff policy on the commercial policies of other countries. This has left two important gaps. The first relates to other instruments of commercial policy which have a restrictive impact on imports. There has been an earlier reference to the use which can be made of customs administration for protective purposes, and no study of Canadian commercial policy would be complete without some analysis of classification, valuation, dumping and other problems which arise in the day-to-day administration of a tariff. Such devices as bounties, subsidies, export taxes, government procurement policies, direct controls and informal agreements to restrict exports to Canada all deserve some mention; although there are few countries which have made as sparing use of such instruments in recent years as Canada.

The second gap, which has been only partially filled by the analysis of previous chapters, involves the outward-looking side of Canadian commercial policy; that concerned with the promotion of opportunities for Canadian exports. The Reciprocity Treaty of 1854-66, preferential agreements with Commonwealth countries and the trade agreements negotiated by Canada with the United States and other countries over the course of the first half of the twentieth century were in large measure defended in terms of the improved access to promising markets they provided for Canadian exports. The negotiations culminating in treaties or trade agreements are the most spectacular, but attempts to reduce or limit the barriers facing Canadian exports are part of the day-to-day work of political leaders, civil servants and Canadian representatives throughout the world. In addition to these efforts, there are a number of government activities directed to the expansion of international trade in general and Canadian trade in particular. These include measures such as the postwar loans to the United Kingdom and various European countries, the policies followed by Canada with respect to the GATT and the projected Organization for Trade Co-operation, the International Monetary Fund, the International Bank for Reconstruction and Development and such diverse activities as those of the Trade Commissioner service and the Export Credit Insurance Corporation. Some of these matters are discussed in the Commission's study on *The Future of Canada's*

Export Trade, and there is no need to enter into detail here. Others will require somewhat more extended treatment and will be discussed in Chapter 11.

Customs Administration

Little can be said about customs administration within the space of half a chapter. Fortunately, an authoritative book entitled *Tariff Procedures and Trade Barriers,* dealing with customs administration in Canada and the United States, has recently been published under the auspices of the Canadian Institute of International Affairs. The author, Professor Elliott of the University of Toronto, has supplemented available published information by drawing on the experience of tariff experts both inside and outside the government service. His study, which has been used extensively in the writing of this section, will no doubt remain the definitive treatment of Canadian customs administration for some time to come.

Classification

Even if a government is firmly resolved to administer the tariff in a completely neutral way, that is, in such a way that the protection afforded by the tariff is neither enhanced nor reduced by administrative practices, a number of difficult technical issues arise. No matter how carefully a tariff is constructed, problems are almost certain to come up in reaching decisions on classification. Classification difficulties often occur when a new product begins to move in trade. Such a product may have been unknown at the time the relevant tariff schedules were written or revised and there are often doubts respecting the item under which it should be classified. As was pointed out earlier, the Canadian tariff is a comprehensive one in the sense that unless a product is specifically permitted free entry, it is dutiable under some item. Most of the schedules contain one or more items covering all types of the relevant commodity not otherwise provided for in the schedule, while tariff item 711, the comprehensive basket item, provides rates of BP 15%, MFN 20% and GEN 25% for all goods not enumerated elsewhere in the tariff as subject to a rate or declared free of duty.[1] Because of the frequency with which new products arise in the chemical industry, tariff item 711 has in effect served as the main n.o.p. item for the chemical schedule as well as performing its more general function.

There are a number of classification difficulties in all tariffs resulting from ambiguous language, obsolete designations, splintering of items to limit agreement concessions and overlapping, which must be overcome somehow by those who administer the tariff. Some special types of classification difficulties arise in administering the class or kind provision of the Canadian

[1]Thus when plastics first appeared in trade there were no rates specifically covering items made of synthetic resins. Most of these products were therefore classified under tariff item 616 as rubber substitutes, or under the general basket item 711. A reference to the Tariff Board was made in 1936 and this resulted, among other things, in the incorporation in the tariff of four sub-items covering synthetic resins. With further development of the industry there were repeated representations from producers, and a new reference was made to the Tariff Board in 1950. As a result of this investigation a new schedule was developed for synthetic resins which covers four full pages of the tariff.

tariff. As pointed out in an earlier chapter, a distinction is often made in the rates levied on particular types of a broadly defined commodity. In the case of a number of items, including machinery, those types which are of a class or kind not made in Canada enter at lower rates than those of a class or kind made in Canada. Reference has already been made to the intractable administrative and judicial problems which arise under this provision.

Other difficulties are encountered in administering the provision for lower rates on items for a particular end-use. Over time the view has developed among those with a specialized knowledge of customs administration that some of these provisions literally cannot be administered in a way which meets a reasonable standard of fairness and certainty.

As indicated earlier there are several alternatives which could be followed if a decision were taken to dispense with class or kind, or end-use distinctions. Since the different alternatives which might be followed could have a significant effect on the level of protection enjoyed by both users and producers of particular commodities, they are often the subject of sharp debate. There is something to be said for keeping the issue of protection versus freer trade separate from the issues connected with the administration of the tariff, and the alternatives considered will be those which would leave the level of protection unchanged.

Where class or kind distinctions exist it would be possible to replace them with extended enumeration. The method at present used leads in effect to an enumeration of items which have been ruled made in Canada, and this might be the method adopted. In some instances the number of items made in Canada is considerably smaller than the number not made, and enumeration of made in Canada items would therefore be not only more consistent with present practices but also much simpler. In other cases it might be simpler to list not-made items with an n.o.p. item covering all other items. Under the present law, decisions on class or kind are made by the Department of National Revenue subject to appeal to the Tariff Board, the Exchequer Court and the Supreme Court. If legislative enumeration were to be the rule, this function would in effect be returned to the Minister of Finance, the Cabinet and Parliament; and changes in the list would be made by legislation rather than by administrative or legal decisions. Since statutory changes in the enumerated lists would be frequent, this would represent a considerable burden.

A second broad alternative would be the establishment of a common rate for items of a class or kind made or not made in Canada. This is the common practice in most countries of the world; and if it is thought that the advantages of a more selective treatment of imports are more than counterbalanced by the disadvantages arising from the increased complexity of the Customs Tariff and its administration, this would be the alternative adopted.

It is obvious that if the level of protection is to remain unchanged the common rate adopted would have to lie somewhere between the existing made in Canada and the not made in Canada rates. On occasion, producers of goods subject to class or kind distinctions have apparently considered the desirability of a compromise single rate as a way of avoiding the uncertainties and difficulties associated with the present system. It is difficult for producers to reach such an agreed rate, however, because of the significant difference in the impact that such a change would have on firms specializing in different types of products. It would be even more difficult for both producers and users to reach any agreement on a common rate, and if such a rate were to be established it would have to be one derived from an independent investigation by the government. Any such rate no doubt would be criticized by a number of producers and users. The principal disadvantage of a common rate is that it would lead to the imposition of a burden on users of items not made in Canada. These users, whether producers of protected goods or exporters, would thus suffer some loss of competitive advantage with little increase in the protection accorded domestic producers of commodities similar to those which they purchase.

These two alternatives are by no means mutually exclusive. Enumeration might well be a suitable technique to use in some cases and a common rate in others. A detailed investigation of each case would be necessary before a decision could be reached, and such inquiries are well beyond the scope of this study.

Valuation

When a tax levied on a commodity is expressed in terms of a given percentage of its value, there is clearly an incentive for those carrying out transactions in the commodity to minimize their tax burden by showing as low a value as possible. An ad valorem tariff rate is a tax of this kind, and it is obvious that care must be taken to ensure that the value shown on the invoice accompanying the goods is not an understatement. Since the interest of importers is clearly on the side of understatement it is generally not felt necessary to set up a mechanism to prevent importers from paying an excessive amount of duty. Indeed, the Canadian Customs Act explicitly provides that duty shall not be assessed on less than the invoice value of goods in any case, except on account of price reductions between the time the goods were purchased by a Canadian importer and the time of their exportation to Canada. Since there is no certainty that the invoice price is the actual price being paid by an importer for a particular shipment, some way must be found of applying an objective test to the prices shown on the invoice. In short, a procedure must be laid down by which customs officials can determine valuation for duty.

This is by no means as easy as might appear at first sight. Even

with the best of intentions, it is difficult to frame simple rules which can cover all conceivable cases. Moreover, the direct financial interest of importers, and the less direct but equally enthusiastic interest of import-competing producers, ensure that the rules and the method by which they are administered will frequently be subject to criticism from one group or another. The general phrase used in the Canadian tariff to describe the price of a commodity which shall be taken as the valuation for duty has for many decades been "fair market value". The meaning which has been imputed to this phrase over the course of the years has varied, as have the qualifications which have been added. The present valuation provisions in the Customs Act prescribes a series of methods, each successive one being adapted to deal with cases which cannot be handled by the preceding provision. The first, contained in sub-paragraph (2) of Section 35 of the Customs Act covers the vast bulk of Canadian imports. If a fair market value can be determined for "like goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions and under comparable conditions of sale" then that shall be the value for duty of the goods.

Each of these qualifying phrases was included for a purpose. Clearly, the prices that are wanted are the prices of identical goods. But goods which are identical in all respects are sold for lower prices to buyers who purchase in large quantities. It is therefore necessary to specify that the relevant price is that relating to like quantities. The phrases "ordinary course of trade" and "fully competitive conditions" overlap to some extent. For example, the price established for transactions between related companies fails to qualify as fair market value on both counts. But the stock of a bankrupt company might be sold under fully competitive conditions and still not qualify as fair market value because it did not arise in the ordinary course of trade. The final phrase "comparable conditions of sale" is intended to recognize the status of the importer as distributor, wholesaler, retail dealer or consumer, so that the price in the country of export to a similar class of trade would be the basis for the determination of fair market value. Since one of the principal differences among buyers at various levels of distribution is in the quantities purchased, there is a certain overlap between the "like quantities" requirement and the "conditions of sale" criterion. In general, these criteria are satisfied and almost all imports are valued under the provisions of sub-paragraph (2).

If it is not possible to determine value for duty under this section because conditions of sale are not comparable for like goods which satisfy all other provisions, then the "conditions of sale" requirement is dropped. If all other conditions are satisfied, but it is not possible to find like goods but only "similar goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions and under comparable conditions of sale", then the value for duty is that of similar

goods. If it is not possible to find either like goods or similar goods sold under comparable conditions of sale, then the value for duty shall be that of "similar goods when sold in like quantities for home consumption in the ordinary course of trade under fully competitive conditions". These less stringent conditions are contained in sub-paragraphs (3), (4) and (5); and in valuing goods under these clauses, adjustments may be made to arrive at the nearest ascertainable equivalent of the fair market value which would rule if all the conditions could be satisfied. Taken together with sub-paragraph (2), they cover virtually all normal trade.

Special circumstances arise, however, and two sub-paragraphs (6) and (7) have been included to cover such special cases. Sub-paragraph (7) provides that if it is not possible to determine value for duty by any of the preceding sub-sections the value for duty shall be "the actual cost of production of like or similar goods at the date of shipment to Canada plus a reasonable addition for administrative costs, selling costs and profit". Finally sub-paragraph (6), which is in fact the real "basket item" and might be expected to appear after, rather than before, the cost of production criterion, provides that if all else fails the value for duty "shall be such value as the Minister determines". Quite clearly sub-paragraphs (6) and (7) introduce a new element. Under sub-paragraphs (2) to (5) fair market value is determined by observing prices actually ruling in a market. It is true that some difficulty arises in determining which market is the appropriate one, but the prices used are actual prices. This is in line with the valuation criteria laid down by the GATT. Under Article VII of the GATT it is provided that the "value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values". If the actual value cannot be ascertained, then under the provisions of the GATT the value for duty should be based on the nearest ascertainable equivalent. The cost of production criterion can be described as a fictitious value since it is not based on an actual price, but is rather the result of estimation and calculation. Similarly, the value determined by the Minister could fairly be described as an arbitrary value, since it is simply left up to his discretion with no legal limitations imposed. It might appear, therefore, that these provisions of the Canadian valuation for duty procedure represent a departure from the spirit of the GATT provisions. This is, however, not the case. These provisions are relatively unimportant in terms of the proportions of trade to which they apply, and the evidence available does not suggest that they are being administered in such a way as to increase protection. Moreover, the preceding sub-sections are so exhaustive that it is doubtful that these provisions could ever be used in a way which would substantially increase administrative protection. It can be said, therefore, that by and large valuation for duty of imports into Canada is based upon

actual prices, and neither adds to nor subtracts from the ad valorem rates imposed by the Canadian tariff.

Dumping

Import-competing producers frequently complain that goods are being "dumped" in their market by foreign competitors. By this, they generally mean that foreign producers are selling for abnormally low prices and thus bringing a downward pressure to bear on prices currently being charged in the domestic market. Many of these complaints refer to transactions which do not fit within the definition of dumping widely accepted in the literature of international economics and incorporated in the GATT and the customs tariffs of a number of countries. The central feature of dumping, as technically defined, is price discrimination between markets. Thus if a producer or group of producers sells goods in foreign markets at lower prices than the prices at which the same goods are sold to buyers in the domestic market, this constitutes dumping. The question then arises as to whether special steps are required to counteract this practice, or whether it is simply enough to value the goods for duty in a conventional way (in order to ensure that there is no evasion of customs duty), and apply the appropriate ad valorem rate. Similarly, if goods are subject to specific rates or are permitted free entry, are any special steps required if the prices at which such goods are being imported are lower than the prices at which they are being sold in the foreign country from which they come? Clearly consumers gain from the low prices while import-competing producers are adversely affected. It might be felt that if the tariff specifies a rate or permits free entry that is the end of the matter; and as long as the government does not lose revenue from evasion, the prices ruling in trade are not its concern. In general Canada and other major trading countries had no machinery specially designed to deal with dumping until early in this century.

This does not mean that no dumping occurred in earlier periods. On occasion, particularly during depression years such as the middle and late 1870's, there were vigorous complaints by Canadian protected manufacturers that exporters to Canada were selling at very low prices. In the phrase of the time, it was said that Canada was a "slaughter market" for the United States. This was one of the many contributing factors which led to the National Policy Tariff, and when introducing that measure in 1879, Tilley drew attention to this feature of recent economic history.[2]

> "Lying as we do alongside that great country, we were looked upon as a desirable market for their surplus products, and our American

[2]*Debates, House of Commons, 1879*, Vol. I, p. 414. It is interesting to note that the English economist Alfred Marshall, who was in the United States in the year 1875, offers some corroboration of the views expressed by Tilley. Commenting on the general problem of dumping a good many years later he wrote: "In Ontario at that time the rising manufacturers were still weak technically and were poorly supplied with capital; so it seemed clear that there was real cause to dread the hostile selling of American goods at special export prices." *Industry and Trade*, p. 793n.

> neighbours, always competent to judge their own interests and act wisely in regard to them, put forth every effort to obtain access to our market. It is well known by the term slaughter market what they have been doing for the last four or five years in Canada; that in order to find an outlet for their surplus manufactures, they have been willing to send them into this country at a price which would be a little below that of the Canadian manufacturers. It is well known also that they have had their agents in every part of the Dominion seeking purchasers for their surplus, and that these agents have been enabled, under our existing laws, to enter these goods at a price much lower than they ought to have paid, which was their value in the place of purchase."

The solution to the problem in 1879 was a general increase in the tariff, including a substantial rise in the number of specific and compound specific and ad valorem rates.

The question came up again in the early part of the twentieth century. In 1903 and 1904 there was a widespread demand for increased protection, a high proportion of the requests for higher tariffs being based on the assertion that American manufacturers were landing goods in Canada at prices substantially lower than those prevailing in their home market. As the Minister of Finance put it in 1904: "Perhaps it would not be too much to say that ninety per cent of the complaints that are made to us by our manufacturers are not that the tariff is too low, speaking generally, but that this dumping or slaughtering condition exists, and that the tariff under such conditions fails to give them the protection they would desire."[3] The remedy proposed by the manufacturers was that of 1879, a general increase in the tariff. This time, however, there was a Liberal government in power which was reluctant to follow this path and cast around for an alternative. The alternative was a special duty, later known as an anti-dumping duty, levied on goods sold to Canadian importers at less than the "fair market value" established by the standard technique of valuation for duty. The special duty was to be equal to the difference between the price at which the goods were sold and the fair market value, although it was not to exceed 15% ad valorem. Canada was the first country to introduce a measure of this kind, and since the most thorough analysis of the problem of dumping was later made by an expatriate Canadian, Professor Jacob Viner, it might be said that anti-dumping duties have a peculiarly Canadian flavour. When introducing the anti-dumping provision Fielding suggested that other countries might follow Canada's lead, and this proved to be an accurate forecast. Almost all of the major trading nations of the world adopted anti-dumping provisions of one kind or another, and when an attempt was made in the years following World War II to lay down rules of conduct in international

[3]Budget speech of the Hon. W. S. Fielding, June 7, 1904, *House of Commons Debates*, Session 1904, Vol. III, pp 4363-64.

trade, the right of a country to levy special duties to curb dumping was included.

The factors which lead to dumping and the theoretical justification for levying anti-dumping duties were outlined in Fielding's speech introducing the measure, and not a great deal has been added in the discussions of this question over the last half century. For dumping to be possible, the markets must be kept separate, or goods sold in the foreign market for low prices will be shipped back to the high-priced market. Freight costs sometimes act as a sufficient barrier; but in the case of goods with low transport costs, dumping can only be carried out by producers who are protected in their own home markets from the re-entry of the dumped goods. Not only must producers who practise dumping ordinarily have protection against re-imports, but the conditions which make discrimination possible also include a measure of control over price by the firms involved. For example, if there are a large number of competing firms selling an essentially homogeneous product, then it will not be profitable for any of them to attempt to discriminate between the domestic market and a foreign market. If some firms try to maintain a higher price in the home market by selling part of their output at whatever it will bring in a foreign market, other firms will simply take advantage of this opportunity and sell all their output in the higher-priced home market. Competition, if sufficiently vigorous, will tend to establish a common price in both markets. On the other hand, if the firms do not sell a homogeneous product and each in effect has its own market, then it may be profitable for a single firm to discriminate between the two markets. If conditions are such that the dumping can be expected to continue more or less permanently, there would be no economic case for interference. Cheapness, as long as it is permanent cheapness, provides an economic gain rather than a loss to the economy receiving the dumped goods. If, however, the dumping tends to be sporadic, as has normally been the case in Canada, then it can be argued that the disruptive effect on domestic industries may more than offset any temporary gain to consumers. To quote Fielding again:

> "Artificial cheapness obtained to-day under such conditions, at the expense of dearness at the very near day in the future, is not a system of which we could approve or which any of us on either side of the House could encourage. This dumping then is an evil and we propose to deal with it."[4]

Manufacturers who had been pressing for a general increase in protection in 1904 were disappointed when the government responded by providing anti-dumping duties. They had hoped for a permanent increase and had been given instead what was described as a temporary remedy for a temporary condition. Once the anti-dumping duty had been introduced

[4] *Op. cit.*, p. 4363.

and widely copied, however, it came to be accepted by the manufacturers. The controversy then shifted to the definition of dumping and the methods by which the anti-dumping provision was to be administered.

Much of the controversy has centred upon the definition of dumping. Many Canadian manufacturers have argued that from their point of view it does not matter whether abnormally low prices for imports are the result of price discrimination, or whether they are merely the result of a generally depressed condition of a foreign industry and are no lower than the prices charged in the exporting country's domestic market. The disruptive effect, they argue, is the same in both cases, and Canadian industries should be protected against it. They have urged, therefore, that valuation for duty should be based upon cost of production rather than on the prices actually ruling in the domestic market of the exporting country, and anti-dumping duties should be applied whenever invoice prices are lower than cost of production plus any reasonable advance for selling cost and profit. In 1921 the cost of production criterion was adopted by a Conservative government but repealed the next year by a newly elected Liberal government. In 1930 when a Conservative government was returned to office the cost of production criterion was reinstated in the following terms: ". . . the value for duty of new unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada plus any reasonable advance for selling cost and profit, and the Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances and his decision shall be final." The limit on dumping duty which had formerly been 15% was raised to 50% ad valorem; and in the ensuing few years, with the extensive use of high arbitrary values, the level of administrative protection reached a higher point than ever before or since in Canadian tariff history. The retreat from this position began in the middle '30's and continued in the postwar years. In 1948 the valuation sections of the Customs Act were rewritten to conform to the provisions of the GATT. In the revised legislation the cost of production approach was dropped as a legal minimum for fair market value, and retained only to deal with exceptional cases where value could not be established under the standard methods. It would appear that there had been a considerable change in administrative practices by 1948, so that the adoption of the GATT principles did not lead to any fundamental alteration in existing valuation techniques. Since 1948 the valuation provisions of the Customs Act have been rewritten with a view to establishing a firmer legal foundation for arriving at the nearest ascertainable equivalent of actual values; one change has been introduced to deal with end-of-season and end-of-run shipments of goods (principally textile items) at very low prices.

Complaints about dumping figured prominently in a number of the submissions to the Commission. Some of these complaints in effect related to the definition of dumping, and it was frequently suggested that the cost of

production criterion should be reinstated as the standard valuation technique. Even if this valuation technique could be used in such a way that it did not degenerate into the mere setting of high arbitrary values, it would still mean that sales at low prices, even if such low prices were generally applied to all sales, would be classified as dumping. Such sales do not constitute dumping under the present Canadian law. In some of the submissions there was a tendency to look back nostalgically to the valuation and other administrative procedures of the 1930's. These were treated as the norm and the changes made in recent years were regarded as having undermined the traditional pattern. A glance at a somewhat longer sweep of tariff history suggests a different interpretation. As has been frequently noted in previous chapters, the 1930's were highly abnormal in a number of respects and it has often been necessary to refer back to the 1920's in order to isolate long-run changes. This is as true of the dumping provisions as of any other aspect of the tariff. It can be illustrated in the following way: The amount of special or anti-dumping duties collected is a misleading indicator of the protective effect of such duties, but it is of some interest to note that more dumping duties were collected in 1933 than in any other year before or since. In 1933 the total of special duties was just over 1% of the value of total imports. In succeeding years this fell to a much smaller percentage and by the years 1953 and 1954 total dumping duties constituted around one-fortieth of one per cent of total imports. This would seem to indicate a rather dramatic trend. A reference to the same material for the 1920's, however, suggests the need for caution. In the years 1925 and 1926 anti-dumping duties totalled around 0.025%, and in 1928 and 1929 around 0.04% of the value of total imports. This is perhaps what might be expected. The law today is basically similar to the law as it existed 30 years ago, and while the total duties collected under the dumping provision is not an adequate measure of its deterrent effect, it is not surprising that its relative impact is somewhat the same.

While the present Canadian law on dumping is fundamentally similar to the original anti-dumping law which set the pattern for many other countries, it is noteworthy that the formal provisions of the present Canadian law go somewhat further than those contained in the GATT. In general, the Canadian law provides that all sales of goods (of a class or kind made in Canada) at prices less than fair market value constitute dumping, and anti-dumping duties must be applied. Under the GATT provisions, such duties should only be levied if the dumping is "such as to cause or threaten material injury to an established domestic industry, or is such as to prevent or materially retard the establishment of a domestic industry". It might seem, therefore, that the existing Canadian dumping law, far from being too weak, is in fact too strong to be fully consistent with Canada's international obligations. This is, however, not the case. The dumping provision has always been a difficult one to administer, and those responsible for the day-to-day

application of the law have usually had to rely to a considerable extent on complaints by domestic producers to pinpoint cases of dumping. This has meant that in practice the application of the dumping provision has in large part depended upon an apparent injury or threat of injury. Thus the Canadian law as actually applied is much closer to the spirit of the GATT provisions than the language of the Customs Tariff might suggest.

Non-Tariff Barriers to Trade

There is some danger that a list of the various types of non-tariff barriers which are, or have been, used in Canada will leave the impression that they play an important part in influencing trade. As pointed out in the introduction to this chapter, Canada makes comparatively little use of these other barriers, and while the list is fairly long, the significance of most of them is limited.

(a) Bounties and Subsidies

The similarity between the results of imposing a protective tariff and paying a bounty or subsidy to a domestic import-competing industry has already been discussed. Because an accurate record can be kept of the cash payments to an industry under a subsidization scheme, as compared with the absence of either a record or even an awareness of such payments when a protective tariff is imposed, the subsidy alternative to a tariff has often received a measure of support from economists and others. Two of the principal parties involved, the recipients of assistance and the government, prefer less direct methods, and as a result this technique is not widely used. In the early stages of the development of the Canadian iron and steel industry bounties were paid on a tonnage basis, but this practice was discontinued over 50 years ago. The present freight subvention on coal, and the subsidy to equalize the prices of domestic and imported coal used in the iron and steel industry, can be regarded as subsidies which have some direct effect on trade. The feed grain freight assistance programme, which in 1956 cost around $17 million, may have some slight effect on trade, although its principal result is to encourage the shipment of grain from the Prairie Provinces to eastern Canada and British Columbia with a resultant influence on the location of feed grain and livestock production. There are a number of other subsidies affecting costs of transportation or redirecting production in one way or another which have an indirect effect on trade, but in total this effect is probably not a large one.

(b) Price Supports

Price supports for agricultural commodities and fishery products have a somewhat different effect than direct subsidies. It is true that by maintaining high domestic prices they encourage domestic production and thereby reduce the need for imports but, because of the artificially high price structure they create, they often act as a magnet for imports and in such cases are supplemented by trade restrictions. These restrictions include direct limita-

tion of imports or arrangements with potential exporters whereby they apply limitations to their exports to Canada. The Canadian price support programme has been on a very limited scale in comparison with those of many other countries and has thus had a much less significant effect on trade.

(c) Import Controls

Ordinarily Canada makes little or no use of quantitative trade or exchange restrictions. Such controls were used to some extent during World War II and also were employed for several years following the precipitous decline in foreign exchange reserves in 1947. At the time the import controls were introduced in 1947 and at intervals during the period of their existence, frequent warnings were given that the controls were temporary and would be removed when the balance of payments justification for them no longer existed. In spite of considerable pressures from those who had benefited from the protective effect of these controls, they were gradually removed and by 1951 the whole apparatus had disappeared. There are a few examples of import restrictions of a more continuing character. Some reference has been made earlier to the prohibitions on the import of margarine, used automobiles and used aircraft which are to be found in Schedule C of the tariff. In a formal sense these are tariff items, but in terms of technique and results they are quantitative import restrictions. There is also what at present amounts to a prohibition on the entry of butter which is made operative by a government monopoly over all butter imports.

(d) Gentleman's Agreements

When imports of a particular commodity may prove embarrassing, it is sometimes possible through the promise of a concession or the threat of punitive action to strike a bargain with the exporting countries whereby they agree to limit their exports of the commodity. Such arrangements are called gentleman's agreements. The arrangement with New Zealand for curtailment of the export of cheddar cheese; that with Cuban sugar producers covering the export of refined sugar; and the informal agreement with Japan on the export of Japanese textiles to Canada are examples from Canadian experience. Most students of commercial policy regard restraints of this kind as a particularly damaging type of restriction. They are usually arbitrary, hidden and inequitable to smaller, weaker countries. Here again, resort to this technique is infrequent in Canada as compared with other major trading nations, especially the United States.

(e) Government Procurement Policies

Most governments, in making purchases on their own account, tend to extend a measure of preferential treatment to their own nationals. Those who pay taxes and vote in a country often seem to feel that a foreign competitor who successfully bids against them for a government contract has taken some business which belongs, as of right, to them or to other firms in the domestic industry. The economics of the matter is quite straightforward. In general,

consumers lose when they have to buy at prices higher than world prices; the same principle applies to the collective consumption done through government. Of course, in some cases it may be felt that national security or prestige considerations require that particular weapons or munitions should be produced domestically regardless of cost. Even here there is something to be said for having regard for costs. Twenty units of an advanced type weapon purchased abroad may contribute more to national security and prestige than ten units of an inferior weapon of domestic manufacture. Be that as it may, most governments give encouragement through their procurement policies to the domestic manufacture of weapons, ancillary equipment and munitions, and the Canadian government is no exception. In the procurement of non-military items a similar bias exists although here somewhat more attention is usually paid to relative prices. As was pointed out in Chapter 5, a standard clause is written into all federal government contracts introducing a buy-Canadian bias, and such evidence as is available suggests that such a bias is reflected in the procurement practices of those charged with government purchasing functions at all levels.

(f) Miscellaneous

There are a variety of other non-tariff devices which have been used from time to time to influence either exports or imports. Some use has been made by either the federal or provincial governments of export taxes, export subsidies and export controls of one kind or another. There are no export taxes in existence today. At present a small subsidy is paid on exported coal, and some small deficiency payments are made to producers of a few commodities which are exported. Some of the sales which have been made abroad of surpluses held by the Agricultural Price Supports Board are in effect subsidized exports, but the amounts involved have been quite small. Controls over the export of electricity and natural gas exist at both provincial and federal levels. In co-operation with most other Western countries Canada imposes certain controls on the exportation of strategic materials and military equipment.

There are a number of regulations applied to imports, governing weights and measures, standards of quality and safety. Similar regulations for the protection of health and morals are also applied, as are controls over trade in precious metals and trade in commodities produced by prison labour. Regulations of this kind are found in virtually all countries. It is sometimes suggested that some of these measures are applied in such a way as to provide additional protection to domestic producers, but there is little evidence that this is the case in Canada today.

PART V

THE ECONOMIC CONSEQUENCES OF ALTERNATIVE TARIFF POLICIES

11

THE ECONOMIC CONSEQUENCES OF ALTERNATIVE TARIFF POLICIES

Economic analysis can make only a limited contribution to decisions on policy matters. This would be the case even if a full and accurate description could be given of all the economic consequences of alternative policies. This rarely can be done. Thus when the policies being considered are highly controversial, there is a tendency for the controversy to spill over into the interpretation of events; and, to the extent that there is uncertainty in the analysis, there is a tendency for those supporting different policies to make the best possible case for their point of view from the evidence available. In full recognition of these pitfalls, an attempt will be made in this chapter to summarize the few things which can be said with a fair degree of certainty about the economic consequences of alternative Canadian tariff policies.

Perhaps the obvious starting point is the tariff policy which has been followed over the last decade. The most recent official statement on this policy is that contained in the budget speech of 1955.

> "It is of the utmost importance for the future of international economic co-operation that the United States should continue to give positive direction and leadership in reducing barriers to the free flow of world trade. We in Canada will continue to play our part in any further steps that are taken to promote these objectives. As one of the world's great trading nations, it is clearly in our interest to encourage overseas countries to earn dollars in order that they may be able to buy our exports which are the source of one fifth of our income. If we are to maintain our standards of living and use our resources and skills to best advantage, we must be prepared to permit other nations to do the same. Markets everywhere are becoming more competitive but as an important exporting nation we must continue to look very carefully at all proposals involving government protection and aid. The effect of the higher costs resulting from artificial assistance in one form or another

> would have to be borne by the Canadian consumer in the form of higher taxes and higher prices and, even more important by the Canadian producer for export in the form of lost markets overseas and lost employment here. . . . Our trade relations with most of the outside world continue to be governed by the general agreement on tariffs and trade. This agreement, I believe, serves our interests far better than a series of separate individual trade agreements with all the other contracting parties and it is, of course, infinitely better for us than the chaotic trade warfare that might take place if there were no trade agreements at all."

This statement contains references to most of the main elements in Canada's postwar commercial policy, including an apparent willingness to accept the pace of tariff reductions set by the United States, a reluctance to make new commitments for protection, and an adherence to the provisions of the GATT.

A reading of Canadian tariff history suggests that changes in either direction in Canadian commercial policy have ordinarily been fairly minor except under the pressure of unusual opportunities or difficulties. It might appear, therefore, that the only alternatives worth considering in the circumstances of today are those which involve a very limited divergence from recent policy.[1] Certainly these are the only alternatives which have received much attention from those submitting briefs and giving testimony to the Commission. Small changes, however, lead to small effects. An analysis of extreme alternatives which have striking economic consequences in effect puts small changes under a microscope, and by enlarging the specimen makes it easier to see the direction and magnitude of the economic consequences which can be anticipated from minor shifts in policy. Moreover, given the very broad sweep of the Commission's terms of reference, it would be inappropriate to consider merely the alternatives of today and tomorrow. There have been occasions in the past when fairly dramatic changes were matters of practical politics, and such occasions may arise in the future.

Considering first a large-scale reduction in the tariff, it is clearly a matter of crucial importance whether the reduction is unilateral or accompanied by reductions in the trade barriers of other countries, particularly those of the United States. It is, of course, true that all countries prefer to make

[1]Some of the dangers of forecasting in this area of policy are well illustrated by the mistakes which have been made in the past. Edward Porritt, the author of *Sixty Years of Protection in Canada 1846-1907*, made the following comment in 1907: "Even to-day, when, owing to conditions which will be discussed later, reciprocity between Canada and the United States is more remote than at any time since 1866 . . ." (p. 125). Within less than three years negotiations began for a reciprocity agreement, and a year later reciprocity was the principal issue of a general election. Similar mistakes have been made by those who thought the possibility of substantial tariff increases was too remote to justify discussion. Even Adam Smith was not immune to this kind of error in the *Wealth of Nations*. Commenting on free trade he wrote: "To expect, indeed, that freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it." (Book IV, Chap. II.) It took three-quarters of a century, a major change in the structure of the British economy, the Anti-Corn Law League, the Irish Potato Famine and a split in the Conservative party to falsify this prediction, but falsified it was.

reciprocal rather than unilateral reductions in their tariffs. Two tariff cuts are better than one, not only because the long-run economic benefits are greater, but also because the stimulus to export industries helps to offset any depressing effect of tariff reductions on import competing industries, and in addition helps to offset any adverse effect the tariff reduction may have had on the terms of trade of the reducing country. In the case of Canada there is yet another reason why reciprocal reductions, particularly reciprocal reductions involving the United States, are much more advantageous than unilateral reductions. This arises from the effect which the Canadian and American tariffs have had on Canada's industrial structure. In general, the United States tariff, both in terms of rates and customs administration, has provided more favourable treatment for Canadian primary commodities than for goods at a higher stage of manufacture. This differential tariff treatment, to the extent to which it has affected the Canadian economy, has tended to twist Canada's industrial structure away from secondary manufacturing and toward extractive and primary processing industries. The Canadian tariff, on the other hand, has had the opposite effect, and given the industrial structure a twist toward secondary manufacturing and away from extractive and primary processing industries. In terms of the distribution of resources between primary and secondary activities, therefore, the two influences have tended to offset one another. A reduction in both sets of barriers would bring about greater changes in the Canadian economy than a unilateral reduction of the Canadian tariff, but in view of the fact that the two tariffs have had offsetting effects on the structure of Canadian industry, it is possible that the extent of inter-industry shifts might be more limited under a reciprocal than under a unilateral reduction.

In view of the foregoing considerations it is perhaps not surprising that historically it is only reciprocal reductions which have had any appeal. If a large-scale reduction of the Canadian tariff is ever likely to occur, it will probably be under circumstances similar to those presented by the North American free trade proposal of 1948. It will be recalled that this proposal envisaged the gradual elimination of trade barriers between Canada and the United States, but not the adoption of a common tariff against the rest of the world. The latter provision is of considerable importance from a Canadian point of view. As indicated earlier, concern over the political consequences of freer trade with the United States has on occasion been a major factor influencing Canadian commercial policy, and the requirement for a common tariff under a customs union has constituted the prime objection to an arrangement of this kind.

Even the free trade proposal with its provisions for independent tariff policy raises difficult questions. Unless concessions granted to the United States were generalized to British Preferential countries, Canada would be in the position of extending more favourable treatment to imports from the United

States than to imports from the United Kingdom. This would mean a reversal of a long-established policy. This question has arisen in connection with earlier trade arrangements between Canada and the United States. Shortly after the Reciprocity Treaty of 1854, the colonies were instructed to generalize the concessions extended to the United States—Canada did so in 1856. Similarly, in 1911, the legislation introduced by the Laurier government to give effect to the reciprocity proposals of that year provided for the extension to British Preferential countries of the concessions accorded the United States. If the same rule could be applied to the free trade area concessions this would deal with the problem. The additional adjustments called for by the extension of free entry to British Preferential goods would be significant, but given the fundamental changes which would in any event be taking place in response to the arrangements with the United States, they could perhaps be taken in stride, particularly if suitable reciprocal concessions could be obtained as a *quid pro quo*. An arrangement of this kind, however, would not be consistent with the GATT. Any extension of concessions which was restricted to British Preferential countries would amount to an increase in preferences *vis-à-vis* MFN countries other than the United States. Under the GATT arrangements, Canada would be placed in the position of having to extend concessions either to all GATT countries outside the North American free trade area or to none. It would, of course, not be difficult to arrive at a compromise solution. In the first instance, concessions could be negotiated on goods of particular importance to preferential countries, and the Canadian tariff could be retained on goods in which the preferential countries had little interest. A clean sweep could be made the long-term goal, the ultimate aim being to generalize the concessions to all with a test of origin applied to Canadian exports to the United States to avoid the trans-shipment of goods destined for the United States through Canada. Under these circumstances, the only advantage of proceeding along the lines of a free trade area rather than through general negotiations, would be the greater likelihood that the United States would be prepared to permit the free entry of Canadian goods, than to permit the free entry of imports from all countries of the world.

No one can predict in any detail the likely economic consequences of such an arrangement. Some comments can be offered, however, which might throw a little light on the direction and order of magnitude of the changes which would result. At present Canadian per capita Gross National Product is around 25% to 30% lower than that of the United States, allowance being made for price differences. This disparity can be resolved into its components in a fairly mechanical fashion, and some part of it can be explained by differences in occupational distribution, labour force participation rates and the net foreign investment position of the two economies. When these adjustments have been made, a residual difference of 15% to

20% remains. About half of this residual can be attributed to lower productivity in Canadian manufacturing.

The difference in labour productivity in Canadian and American manufacturing tends to be concentrated in industries which are producing more or less exclusively for the Canadian market. It appears that the processing industries, e.g., pulp and paper, refining and smelting of metals, saw mills and flour mills, tend to use productive techniques similar to those found in the United States so that differences in labour productivity in these sectors tend to be small or non-existent. On the other hand, many industries producing for the Canadian market alone tend to be handicapped by the limited size of the market and utilize equipment and productive techniques which differ significantly from those in the United States. Differences in United States and Canadian productivity in these industries tend to be large, and in spite of a level of wages in Canada 15% to 20% lower than in the United States, many of these industries quote prices *ex tax* for final goods 10% to 20% higher than those of comparable American commodities.

Insofar as this difference can be imputed to handicaps imposed by the limited size of the Canadian market, the establishment of a free trade area with the United States might be expected to eliminate it. To the extent that the difference in labour productivity can be imputed to differences in the quality of labour and management in the two countries, some part of it would remain. Comparisons of this kind are difficult to make. The consensus of those familiar with the manufacturing labour force of the two countries is that the difference in the quality of labour is not a marked one. The comparative quality of management is much more difficult to assess, but in many Canadian secondary manufacturing industries American subsidiaries are dominant, and a significant proportion of their top-level management is drawn from the United States. It would appear therefore, that in the absence of the American and Canadian tariffs the performance of Canadian secondary manufacturing industry would be improved significantly as a result of both changes in productive techniques within industries and shifts among industries. Other sectors of the economy such as retail and wholesale trade, transportation and services would also be affected, but it is more difficult to trace through the influence which the double set of trade restrictions has had on their development.

There would unquestionably be substantial adjustments. In some cases the adjustments required would take place within individual industries; the transition to the new situation involving the adoption of equipment and productive techniques suited to a larger market. In other cases there would be inter-industry shifts, some industries expanding and others contracting. Some industries appear to be more confident than others of their ability to prosper under conditions of continental free trade. Similarly, within industries some firms appear to be more confident than others.

Something could be learned from a large-scale statistical and economic analysis but there are many imponderable factors which could influence the result. For example, it has sometimes been argued that American parent companies might react to a change of this kind by concentrating production in the United States even under conditions where it was in their apparent economic interest to expand output or locate new facilities in Canada. This might reflect a concern over the stability of the arrangements or merely a preference for the greater certainty they feel about domestic as compared with foreign operations. It has also been suggested that some Canadian businessmen might fail to rise to the occasion when new opportunities for expansion into a great new market were presented to them. If this were true over significant sectors of the Canadian economy, it would clearly mean that the advantages to be gained would be much smaller than might be anticipated on grounds of general economic reasoning. Uncertainty about reactions of this kind creates uncertainty about the total result which might be achieved.

There is however, a theoretical presumption that a change of this kind would have a favourable effect on average Canadian living standards. If two economies are separated by trade barriers and these barriers are removed, then under ordinary conditions it is to be expected that both will benefit. This is nothing more than an extension of the argument of earlier sections of the study. The change in competitive conditions in Canada resulting from reciprocity with the United States might have a significant effect on all sectors of the economy, although the greatest change would occur in secondary manufacturing. A substantial increase in productivity in this important sector would have the effect of narrowing the income differential between Canada and the United States; although even under conditions of continental free trade a significant disparity in average per capita income would probably remain.

It goes without saying that there are considerations of a broad political nature which may be regarded as of much greater importance than any economic consequences. As indicated earlier, ideas of a basically similar nature have been rejected twice in Canadian general elections, opposition to the proposals being framed mainly in terms of political consequences. Many Canadians feel that closer economic relations with the United States would weaken the links among the widely dispersed regions of this country, and by encouraging a larger North-South trade would strengthen the influence of the United States over Canada's national life. It is felt that in time this would undermine the desire for separate existence. Moreover, it is argued that if this country's economic well-being became much more dependent upon the policies of the American government, it would come to be felt that ten Canadian members of the United States Senate could promote Canadian interests more effectively than a group of diplomats. In short, it is suggested that continental free trade is merely a stepping-stone

to political federation. Other patriotic Canadians share Sir Wilfrid Laurier's view that fears on this score are much exaggerated. They point out that the tariff has often been a divisive rather than a cohesive force in the development of Canadian national unity, and on occasion has been an important factor in provoking regional discontent. It is also urged that the increasing stature of Canada in world affairs has brought new responsibilities, and much has been heard in recent years of the need to take into account international political considerations in reaching decisions on all types of policy, including commercial policy. If this study purported to be a discussion of all aspects of commercial policy, considerations of this kind would require extended treatment. This is not that type of study, however, the analysis being essentially restricted to economic implications.

An extreme alternative of the opposite kind should also be examined. For the sake of symmetry the alternative chosen should be one which, although perhaps improbable, is at least within the bounds of possibility. Assume, therefore, that a decision were taken to reverse the existing policy of reducing barriers to trade and to provide increased protection to Canadian industries. Assume further that reasonable care were used in selecting rates to be increased, no rate being raised unless it was clear that it would encourage import-replacing production on a significant scale. In short, it is assumed that the increase would be carried out along the lines discussed in Chapter 9, rate increases being restricted to the amount necessary to accomplish the desired result. Industries in a position to achieve substantial import displacement with low rates would generally be given preference over industries requiring higher rates.

A substantial portion of Canada's imports would be unaffected by a change of this kind. Since protection rather than revenue would be the aim of the programme, there would be no point in raising rates on such commodities as coffee, tea, bananas, oranges, cocoa, diamonds and raw cotton which cannot be produced in Canada. Indeed, if a general revision of the tariff were being made to effect a substantial increase in protection, there might be some tactical advantage to be gained from a general reduction in rates on commodities of this kind, although many of them are already on a free basis while rates on others are very low.

Another significant portion of Canadian imports is made up of primary commodities which can be produced domestically. Examples include crude oil, coal, wool, sugar, rubber and iron ore. With appropriate rates it would be possible to redirect the flow of crude oil and iron ore in such a way that all Canadian requirements were satisfied from domestic sources, with a reduction in the quantity exported. In other cases, a curtailment of imports would involve more fundamental changes. It might be possible, for example, to satisfy domestically most of this country's needs for such commodities as coal, wool and sugar. But since this would merely involve the artificial

encouragement of one type of primary production at the expense of other types, and would, in any event, be an extremely costly programme if pressed very far, it can probably be assumed that commodities of this kind would not figure prominently in any programme for general tariff increases.

There are other groups of Canadian imports which for one reason or another might not be regarded as suitable candidates for increased rates. These include settlers' effects, goods under the tourist exemption, agricultural machinery and imports from the United Kingdom. Provisions governing settlers' effects are designed to encourage immigration and, unless there was a change in this policy, imports of this kind would continue to enter free. If increased protection were to be given to the manufacturers of ladies' footwear and clothing, a decision might be taken to lower tourist exemptions or to set limits to the quantities of particular commodities which could be imported in this way. A change of this kind would probably be sufficiently unpopular to encourage some caution in introducing it. Another change which would be unpopular and therefore probably avoided would be the restoration of rates on agricultural machinery and implements, fertilizers and other commodities used by farmers. These commodities are on the free list of the United States as well, and there might be a reluctance to prejudice an arrangement which permits the free entry of Canadian secondary manufactured goods into the United States. There might also be a reluctance to raise rates on commodities imported from the United Kingdom. During the period of more than a decade since the end of World War II, Canadian exports to the United Kingdom have been subject to a number of restrictions; but, in view of continuing British payments difficulties, efforts have been made by Canada to encourage British exports to this country.

This quick survey of Canada's imports suggests that there is a substantial portion which might remain relatively unaffected by a general increase in protection, either because increased rates would do little to stimulate import-replacing production in Canada, or because of special circumstances of the kind referred to above. There would still be considerable scope for increased rates. Imports of types and qualities which could readily be produced in Canada enter in substantial quantities, and suitably high rates would encourage their production locally. It would be necessary however, to have regard to the indirect effect of increased protection for some industries. For example, two likely candidates for higher rates if a general increase were being considered would be the industrial machinery industry and the primary iron and steel industry. Both are important suppliers of other protected industries, and unless these in turn receive higher rates to offset the rise in the cost of equipment and materials purchased, the net increase in import-replacing production would be smaller than anticipated.

It is very difficult to estimate the ultimate economic consequences of a change of this kind, since a great deal would hinge upon the extent to which foreign nations retaliated. If retaliation could be neglected, the effect of a change of this kind could be estimated by the methods outlined earlier in this study. A substantial proportion of Canada's present imports could be produced in this country but only at a higher cost than that at which they could be obtained abroad. The extra cost of the new import-replacing production would provide (leaving aside retaliation and other complicating factors) a first approximation of the economic cost of the increases. With enough information it would be possible to make informed guesses of the increase in rates required to curtail imports of secondary manufactured goods by, let us say, $500 million, and also to make an informed guess of the extra cost entailed in doing this. It is clear, that even abstracting from retaliation, a change of this kind would involve a cost. Under full-employment conditions, factors of production employed in new import-replacing production would have to be drawn from employment in other industries and in general this would entail a fall in what has earlier been called their "real productivity". It is also clear that the first $500 million of displaced imports of manufactured goods would be the cheapest $500 million. Rates on a number of manufactured commodities entering Canada are sufficiently low that the extra cost (always abstracting from retaliation) of curtailing a limited amount of trade might be a good deal smaller than is often supposed. The further the policy was pressed, however, the more difficult it would become to secure import displacement at a price which was not regarded as prohibitive. Rates of 50% or 60% or even higher would be required. As rates rose there might be a tendency to resort to quotas and administrative restrictions which do not display the extent of protection afforded in quite such a naked fashion. In the past, Canadian tariff rates for industries in which Canada's comparative disadvantage is great have been kept low enough to discourage their development. This is in contrast to the American tariff which has been sufficiently high and unselective in the past to spawn a whole family of labour-intensive high-cost domestic industries. These industries are generally small and fairly static but nevertheless sufficiently powerful politically to cripple programmes of trade liberalization. If a Canadian programme of enhanced protection were pressed far enough, it would finally be driven to the position of giving high protection to industries of this kind. It can perhaps be expected that a halt would be called before this point was reached. To establish some order of magnitude it will be assumed that the level of rates and the methods of tariff administration of the early '30's would be regarded as an upper limit.

The nature and extent of foreign retaliation resulting from a return of the Canadian tariff to this level raises a number of difficult questions. Whether or not it makes economic sense for countries to retaliate, commercial history is full of instances in which a change of this kind by a major

trading nation had led other countries to raise barriers against its exports. In the tooth and claw world of bilateral national bargaining the prevailing code has been that of an eye for an eye. Under present-day conditions, however, any drastic general increase in protection would first run afoul of Canadian commitments under GATT. In the less ruthless world of international agency negotiations, much would depend upon the way in which the increases were introduced. Canadian representatives to GATT have been among the foremost opponents of the inclusion of escape clauses in the agreement, but since the club members have been prepared to relax the rules Canada could take advantage of the flexibility provided. Some countries in the postwar period have been unprepared to take the measures necessary to secure balance in their international accounts, and by pleading balance-of-payments difficulties have been able to introduce and retain restrictions without encountering retaliation. In addition to their useful accomplishments, therefore, the postwar international agreements have in part tended to put a premium on irresponsibility. Providing countries are prepared to go through the ritual, they can in effect throw themselves on the mercy of their major trading partners and escape the international consequences of their own actions. This kind of result can be justified at least in part. The inability to follow appropriate domestic policies may be a reflection of genuine political difficulties, and apart from its useful disciplinary effect, retaliation will hurt rather than help the other countries which have been adversely affected.

To take a fanciful example, suppose Canada wished to increase protection substantially while minimizing the dangers of retaliation. Given present international trade rules, Canada could create a balance-of-payments "crisis" by, let us say, a combination of domestic inflation and a fixed exchange rate; import restrictions could be imposed on balance-of-payments grounds; and this pretext would probably be enough to ensure the absence of retaliation. Moreover, if the experience of other countries is any guide, such restrictions could be retained over a considerable period without retaliation if Canada pursued domestic policies which resulted in continuing balance-of-payments difficulties. It is, of course, not anticipated that a policy of this kind would, or should, receive any consideration; but the fact that it would probably succeed in accomplishing its objectives points up some of the characteristics of the postwar trading arrangements.

If no special justification could be found for increased protection, it would be necessary for Canada to undertake negotiations to withdraw concessions already granted to other countries. These countries would demand "compensation" for the unbinding of bound rates and the raising of rates. Since this country would not be in a position to reduce other rates as compensation, these countries could in turn be expected to withdraw concessions extended to Canada. If this procedure proved too unwieldy Canada might choose to withdraw from GATT entirely. It would thereby free its

hands but by the same token would free the hands of all other GATT countries to treat Canadian exports in any way they chose.

Assuming that some other GATT countries, particularly the United States, took advantage of their new freedom of action, it could be expected that at the time Canada was adding new restrictions to imports, other countries would be applying new restrictions to Canadian exports. The import-competing industries would be stimulated as they increased their share of the Canadian market, while the export industries would be adversely affected by the restrictions imposed by foreign countries.

If the change were brought about suddenly there might be an absolute fall in the level of output of the export industries. If it were introduced gradually, then a change in the structure of the economy could come about through a retardation of the rate of growth in parts of the economy, and a stimulation of the rate of growth in other parts. The absolute level of the rate of growth of import-competing industries would depend upon the extent of the structural change and the rate of growth of the economy as a whole. The latter in turn may be said to depend upon the rate of growth of the labour force and its productivity. As indicated above, a measure of the kind contemplated can be expected to have an adverse effect on productivity, and will thus have the effect of somewhat retarding the rate of growth of the economy as a whole. The magnitudes involved might not be very large, but the direction is clear. It has sometimes been suggested that there might be an offsetting effect from an increase in the growth of the labour force. This line of argument has been examined at considerable length in Chapter 7, and it was there concluded that under present-day conditions it had little relevance. It was also suggested in the course of that discussion that in the absence of special assumptions, an increase in protection, insofar as it had any effect at all on population growth was as likely to lead to a decrease as to an increase. It should be pointed out that this conclusion as regards the effect of protection on the size of population is not one on which there is as yet general agreement. If, however, productivity fails to rise as rapidly as it would have done otherwise, while the rate of growth of the labour force is no higher or perhaps lower, then the rate of growth of the economy as a whole would for a time be somewhat lower than it would otherwise have been.

Secondary industries would thus be affected by two influences. The Canadian market for their output would be expanding at a somewhat lower rate than otherwise, while the domestic share of the market would be increasing at least until a new equilibrium was achieved between imports and import-competing products. The rise in the share of the market would almost certainly more than offset any reduction in the rate of growth of the market as a whole, and secondary manufacturing would grow at a higher rate than in the absence of increased protection. For those already engaged

in these industries, business conditions would be buoyant and for a time profits would be abnormally high. With the expansion of existing firms, the development of new Canadian firms and, perhaps more important, the influx of branch plants of foreign firms, there would be a tendency for profits to return to a normal level. Employment conditions in the secondary industries would be favourable, although it would be difficult to improve upon the conditions which have prevailed over the last 15 years. It is difficult to generalize on what would happen to the influx of foreign capital. Capital which would have entered to take advantage of favourable conditions in the primary industries would not flow in at as high a rate, but the entry of foreign capital into secondary manufacturing would be encouraged. Because of the concentration of secondary manufacturing in the two central provinces, there would be pronounced regional effects. Over the long run, residents of all regions would be adversely affected, but initially the impact would be felt principally in regions which depend heavily on export industries. The tariff, which in recent years has not played a very important part in discussions of regional problems, would no doubt come to the fore again.

Some of the economic consequences which might be expected to follow from a substantial general decrease or substantial general increase in the level of Canadian protection have now been outlined. As emphasized on several previous occasions, economic considerations are only one element, and perhaps not the most important element, which must be taken into account in reaching decisions on commercial policy, and none of the foregoing analysis should be interpreted as establishing a case for any particular policy. Moderate changes in protection in either direction can be expected to yield results of the same kind but of a much lesser degree.

Most proposals for tariff changes can be classified as leading either to an increase or decrease in protection, and can thus be analyzed along the lines of the foregoing analysis. Some proposals, however, contain special elements and do not fit readily into such a simple classification. For example, from time to time proposals have been forthcoming advocating closer trade relations with the United Kingdom. If this proposal simply involved the exchange of tariff concessions with the United Kingdom, through, let us say, the device of a free trade area, it might represent a way of achieving further reductions of trade barriers. Moreover, from the point of view of those who feel concern over the political consequences of closer economic ties with the United States, this proposal has the additional merit of accomplishing a freeing of trade with what they would regard as political gains rather than losses.

This is not the form in which the proposal usually appears. The Canadian tariff has not constituted a major barrier to United Kingdom exports to Canada in the postwar period, and ways and means of lowering it have

not figured prominently in Anglo-Canadian trade discussions. Further, the United Kingdom has not been in a position to grant compensating concessions. The inconvertibility of sterling and quota restrictions on imports from the dollar area have meant that United Kingdom concessions, if they were to satisfy the criteria of a free trade area, would involve drastic changes in payments arrangements as well as tariff rates. Overtures of this kind would clearly have implications for the Commonwealth preferential system and the Sterling Area trade arrangements generally. Other members of the Sterling Area have their own views on commercial policy, and these do not include any marked enthusiasm for Commonwealth or Sterling Area free trade. By the rules of the GATT Canada is barred from extending concessions unilaterally to the United Kingdom. Such a step would in any event have only a moderate effect on trade, and because some of the Canadian industries which would be adversely affected by such a move are already highly sensitive to import competition, it is not a step which would be taken lightly. Indeed, the only way in which anything really significant might be accomplished in promoting enhanced trade between Canada and the United Kingdom would be a willingness on the part of Canada to accept sterling in payment for exports and to hold sterling balances. This in turn could mean additional pressures on Canadian resources, and without special measures might lead to consequences somewhat similar to those resulting from the heavy loan programme of the early postwar years; namely, a decline in foreign exchange reserves followed by the imposition of import restrictions. Moreover, these restrictions would have to be of a discriminatory character, and the result in terms of the redirection of trade would be similar to that following from an extreme application of preferential tariffs. Even in the absence of retaliation from the United States and other countries adversely affected, the economic costs involved would be considerable. Imports obtained from the United States and other MFN countries would be purchased at higher prices from sterling sources or produced at higher costs by domestic industries. A reading of Canadian tariff history clearly shows that Canadians have in general been unwilling to accept the economic costs arising from an extreme application of preferential tariffs, and it is perhaps not surprising that trade and payments proposals along these lines have failed to command wide support.

A new factor has been introduced into proposals of the kind outlined above by the decision on the part of the United Kingdom to attempt to work out a free trade area arrangement with Western European countries. If these efforts bear fruit, any alternative looking to closer trade relations outside North America may come to involve arrangements with a Western European group rather than the United Kingdom alone. Insofar as such arrangements would require payments agreements, they raise questions similar to those raised by the Sterling Area proposals. The tariff implications of such an alternative would be quite complex. As compared with

Western Europe, Great Britain would no longer have a preferred position in the Canadian market, while all Western European countries would have a preferred position as compared with the United States and other non-European MFN countries. This would clearly involve a striking departure from the commercial policy Canada has pursued for many years.

Proposals are sometimes made for special bilateral trade and payments agreements to promote the sale of particular Canadian commodities. The payments and trade control implications would be the same as already discussed, although on a much smaller scale. The Canadian position on agreements of this kind has been a fairly straightforward one. Canada pays universally acceptable money for what it buys, and requires money of the same type for what it sells. The principal attribute of money (as so defined) is that it represents generalized purchasing power. An economic system based on money enjoys considerable advantages in terms of convenience and efficiency over a system based on barter or any of the intermediate forms between barter and money. The argument which applies domestically has equal relevance internationally. While on occasion a bilateral trade and payments agreement might move some Canadian goods which would not have found a market otherwise, the costs involved, including higher prices for imports and the accumulation of inconvertible foreign exchange, might well add up to a substantial proportion of the trade temporarily created. It apparently has been felt that Canada should not prejudice its general opposition to arrangements of this kind in order to conclude small agreements which even taken alone promise little in the way of gains.

In conclusion, some comments should perhaps be offered on the present commercial policy. No attempt will be made to forecast in any detail the extent of tariff reductions which would likely occur over the next 20 or 30 years if there were no change in existing Canadian commercial policy. Since this policy has been based in large measure on the pace set by the United States, it is American rather than Canadian decisions which would have to be predicted. If, as some have argued, protectionism in the United States proves sufficiently powerful to prevent any significant movement in the direction of freer trade, existing Canadian commercial policy will lead to the more or less stable situation which has characterized the years since 1951. When one looks over the chequered commercial history of the world, stability of this kind is not to be despised on economic grounds. A reasonable measure of security in commercial arrangements, even with the existing level of tariff barriers, will make for a world trading environment which will not seriously handicap Canada's growth. It is sometimes argued that unless some forward impetus is maintained it may be difficult to preserve a system of this kind. Yet even with the very limited negotiating powers currently enjoyed by the American administration, it is possible to maintain at least a token movement in the direction of freer trade, and periodic negotiations

of the type held in Geneva in 1956 may be enough to prevent GATT from becoming moribund.

While it is widely held that it is unlikely the United States tariff will be significantly reduced in the immediate future, there are those who argue that, over the longer term, fairly striking changes may occur. Those who support this view recognize that the economic gain to the United States from such a course of action is almost certainly quite minor in nature. It is pointed out however, that what is minor for the United States may not be minor for other countries, and American trade restrictions assume a good deal of importance in the political relations between the United States and other friendly powers. If the United States were not the leader of a vast and heterogeneous coalition, the small American economic gain to be had from freer trade might not be regarded as sufficiently important to justify the domestic political difficulties of moving in this direction. It can be argued, however, that a measure which will help to cement the free world together, while at the same time conferring a benefit rather than a cost on American taxpayers as a whole, is one which might be expected to obtain a favourable hearing over the course of the years.

The record of the past 20-odd years lends some support to this view of the future of American commercial policy. The movement has been consistently in one direction, although given the high starting point, obstructive customs regulations and such provisions as the escape clause and peril point, many of the reductions have been more apparent than real. Traditionally, Republican administrations have been inclined to raise rather than lower barriers, and the decision of the present administration to continue to move the tariff in a downward direction is thought to be of some significance. Moreover, it is urged that there has also been a change in the attitude of many business leaders, and that a liberal trade philosophy is now more widely held among executives of powerful and progressive industries. Strong protectionist leanings tend to be the hallmark of those associated with industries or portions of industries of a labour-intensive or handicraft type. The manufactured commodities for which the escape clause has been invoked give an indication of the type of industry heavily dependent on protection; fur felt hats and hat bodies, hatters' furs, watch movements and bicycles. It is held that industries of this kind may tend to grow less rapidly than other American industries and that as a result the political power of protectionist groups will become less important. Further ground for optimism is sometimes found in the expectation that continuing high levels of employment and income will reduce the fears of import competition and hence the pressures for protection.

If in fact the United States gives positive direction and leadership in reducing barriers to trade and if, in the words of the previously quoted official statement, "We in Canada . . . continue to play our part in any

further steps to promote these objectives", the economic consequences of following the existing Canadian commercial policy would be quite significant. It might be necessary as tariffs get closer to minimum levels to urge the United States to adopt a more flexible method of tariff negotiations to permit the reciprocal reduction of certain rates to zero. Under the method used in the past, American negotiators have lacked the power to reach agreements of this kind, being restricted to maximum rate reductions. If, at some stage, the American Executive Branch were granted substantial powers to negotiate new reductions, but restricted to the conventional pattern, some difficulties might arise for Canada. There might be a willingness on Canada's part to accept free trade both ways for individual industries as in the case of agricultural machinery, but an unwillingness to cut rates to a very low figure without obtaining free access to the American market. Once the tariff for such industries has been squeezed to the minimum the view may develop that anything short of a zero tariff both ways would involve serious adjustments without compensating economic benefits.

This concludes the analysis of the economic consequences of alternative policies. The principal result of this analysis can be summarized in a sentence. In general and over the long run, increases in protection can be expected to lead to economic losses and decreases in protection to economic gains for the country as a whole. This follows not only from the direct effect the Canadian tariff has on the Canadian economy, but also from the effect Canadian commercial policy has on the treatment accorded this country's exports. Once this has been said it is important to stress the need to retain perspective. Small changes either way will lead to small economic effects; and it would be misleading to suggest that minor increases or decreases in the tariff would significantly affect Canadian living standards. It should also be emphasized that Canadian commercial policy is a political as well as an economic instrument. It is therefore quite possible for those who are in agreement on the economic implications of a given policy to hold different views on the best policy to be pursued at any particular time.

APPENDICES

APPENDIX TO CHAPTER 6

I. *Sources and Special Problems*

The broad estimates presented in Chapter 6 were derived from the information outlined in this Appendix. As indicated in the text, these results should be interpreted as merely providing a measure of the orders of magnitude involved, rather than a comprehensive and accurate estimate of the effect of the Canadian tariff on the prices paid by Canadians for protected goods. While the limitations and shortcomings of the data are painfully obvious to those who have contributed to this study, the comparison made between Canadian and American prices appears to be a more extensive one than any previously attempted. It was thought, therefore, that these data should be presented in some detail, not only to permit a critical examination to be made of the material underlying the main estimates, but also to make available price data which might prove useful for other purposes.

The study of the cash cost of the Canadian tariff required two major bodies of statistical information; one relating to expenditure, output and imports, and the other providing prices of comparable products in Canada and foreign countries. The Dominion Bureau of Statistics (D.B.S.) supplied virtually all the information relating to the first group. The price comparison was carried out by Dr. Jean Mann Due, who obtained her information on comparative prices from six principal sources:

(1) The Prices Section of D.B.S.;
(2) the Division of Prices and Cost of Living of the U.S. Bureau of Labor Statistics;
(3) manufacturers who produce and sell in Canada and the United States;
(4) retailers who distribute in Canada and the United States;
(5) other published sources;
(6) direct collection.

Personnel in the Prices Section of D.B.S. and in the Division of Prices and Cost of Living of the Bureau of Labor Statistics (B.L.S.) compared the specifications used for pricing all items in the consumer price indexes, and determined the articles where differences in specifications were not considered sufficient to yield significant price differences. The comparison was made between average prices in ten major cities across Canada and average prices in northern United States cities and Washington. The average was a weighted

average; the Canadian cities being weighted by population and sales, the United States cities given weights which were the same as their closest Canadian counterparts. It should be pointed out that the prices collected by these two agencies are for the primary purpose of measuring change in prices over time. Thus their collection techniques are primarily geared to this purpose, and only secondarily to the measurement of the absolute level of prices at any point of time. It is felt, however, that the errors arising from this procedure are not of a significant magnitude in the comparison of price differences in commodity groups between Canada and the United States, although they may be of some consequence in comparing the prices of individual items in the two countries.

Dr. Due worked directly with the staffs of both the D.B.S. in Ottawa and the B.L.S. in Washington, and had the benefit of the co-operation and advice of Mr. Lorne Rowebottom and Miss Francis Pratt of the D.B.S. and Dr. Dorothy Brady and Mrs. Ethel Hoover of the B.L.S. Prices obtained from these sources were of major importance in the food and clothing areas and, as will be seen from the Appendix tables, made an important contribution in almost every sector of consumer expenditure.

Manufacturers and retailers who operate in both Canada and the United States were most helpful in providing suggested list prices for identical products in the two countries; and the price comparisons for automobiles, electrical appliances, tobacco products and others are based almost entirely on information received from these sources.

In a number of cases, particularly when the comparison involved a country other than the United States, reliance was placed on other published sources, including catalogues, price books, Census of Industry material, and briefs and testimony to the Royal Commission. Coverage was also extended and a general check imposed on the whole operation by the direct collection of prices by Dr. Due in Peterborough, Ottawa, Toronto, Chicago and Champaign, Ill.

While the estimate of the cash cost of the tariff was made for 1954, and data on output and imports for 1954 were used throughout, main reliance was placed on price data relating to 1955. Since consumer prices in both Canada and the United States remained quite stable during the period 1954-55, this raised few problems, although in some cases where the movement of price relatives in the two countries was not parallel it was necessary to make adjustments. Similarly, it was necessary to rely on 1953 data for a detailed breakdown of expenditure within main components.

(a) Special Problems

As pointed out in the text, a number of special problems arose in deciding what should or should not be included as part of the cash cost of the tariff. One of the most important difficulties arose in the treatment of *distributive*

margins. Very little reliable information is available on wholesale and retail margins actually ruling in the market on particular commodities. There is, however, a good deal of general information which would suggest that in a number of important cases the average retail margin may not vary significantly as between Canada and the United States. For example, Mr. E. G. Burton, president of Simpson's Limited, has pointed out that the average markup in Canadian department stores is somewhat lower than the average markup ruling in American department stores. He included a table in his submission to the Royal Commission showing figures for both Canada and the United States. The American figures were drawn from the annual reports of the Controllers Congress of the National Dry Goods Association and the Canadian figures from reports from 40 department stores.[1]

	1952		**1953**		**1954**	
	U.S.	**Canada**	**U.S.**	**Canada**	**U.S.**	**Canada**
Gross margins (% of sales)	35.7	32.4	36.2	33.5	36.2	33.6
Operating expense (% of sales)	32.5	30.7	33.1	30.7	33.5	30.9
Net operating profit	3.2	1.7	3.1	2.8	2.7	2.7
Stock turns annually	3.8	3.9	3.7	3.7	3.6	3.8

These figures refer to percentage margins, and to the extent that the wholesale prices of the commodities sold by department stores are higher in Canada, the percentage margin is applied to a larger base.

Whatever may be true of broad general averages, a number of instances have been found where the absolute level of the retail margin on protected commodities appeared to be higher in Canada than in the United States. To the extent that such goods are readily transportable, it could be argued that in the absence of the tariff any difference in the absolute size of the retail margin would be eliminated or sharply reduced. Watches provide an example of the way in which the lack of access to world markets enhances the prices of watches to consumers. A high proportion of the watches purchased by Canadian consumers is imported over an MFN rate of 30% and 40¢. The Canadian price might be expected to be equal to the foreign price plus the duty, plus any taxes imposed on watches sold in Canada (20% at the manufacturers' level). According to information obtained from a well qualified individual in the trade, the Canadian retail price is calculated by applying the standard percentage markup to the duty-paid, tax-included price. As a result the Canadian price for the brand of watches examined is the highest among the seventy-one countries of the world in which it is sold.[2] In the absence of the tariff the absolute level of the retail margin on watches in Canada would be under the competitive pressure from other sources and would presumably be substantially lower.

[1]Submission No. 167, presented by Mr. E. G. Burton, president of Simpson's Ltd., pp. 4-5.
[2]For comparisons of the Canadian and Swiss prices of watches see the end of Section VI, Clothing, Footwear and Personal Furnishings.

The same general comment can be made about a number of other commodities including sheets, smoking tobacco, some drugs and clothing items and others. For some other commodities, including automobiles, trucks and some electrical appliances, suggested list prices provide for substantially higher margins in Canada. The dealers' margin on low-priced automobiles is $100 to $150 higher in Canada if the suggested list price is used as a yardstick.[3] Unfortunately it has not been possible to carry out a direct investigation of the extent to which *actual* dealers' margins diverge from the nominal margins. It has therefore not been possible to determine the extent to which the distributive sector of the automobile industry makes use of the protection provided by the tariff. Much the same observations can be made on electrical appliances. Dealers' margins based on suggested list prices are substantially higher in Canada than in the United States, but again the difference may be partly nominal.

Because of the difficulty of uncovering reliable information on the distributive margins actually prevailing in the market for some protected goods, and because it is even more difficult to estimate the extent to which retail margins are affected by the tariff, no attempt has been made to include any of these costs in the main estimate of the cash cost of the tariff. It is evident however, that a plausible estimate of the influence of the tariff on distributive margins would be a significant figure running into the tens of millions.

Another special problem arose in the treatment of transportation costs. The prices with which Canadian protected prices should be compared are the prices of foreign goods laid down in Canada rather than the prices prevailing in foreign countries. In cases where this makes an important difference an allowance has been made, but there may be a number of items in which this is a minor factor for which no adjustment has been made.

Reference has been made in the text to the understatement likely to arise when measuring from the expenditure side. In general, services have lower prices in Canada than in the United States, but in many cases the gap between Canadian and American prices would be even wider if producers of services could obtain their current material inputs at world prices rather than protected prices. This applies to gasoline used in taxis, buses, etc., cosmetics and drugs used by beauty shops and barbers, manufactured foods and other protected products used by restaurants and a number of other items. To some extent the understatement resulting from the omission of these items is offset by the inclusion of protected machinery and equipment used by protected manufacturing industries.

[3]The Commission's study, *The Canadian Automotive Industry*, contains the following comment: "It did not prove possible to obtain comprehensive data on the Industry's cost of distribution, but it is apparent that the necessity of serving a relatively small, widely dispersed market involves high distributional costs." p. 78.

II. *Food*

Canada is a net exporter of food and cereal products. However, if the grains and farinaceous products are excluded from the total trade in agricultural, vegetable and animal products mainly food, Canada is a net importer of the remaining food products. In 1954 total Canadian imports of agricultural, vegetable and animal products mainly foods, (excluding grains and farinaceous products) amounted to $417 million; Canadian exports for this period amounted to $236 million. The distribution of total imports and exports among the various categories of foods is shown below.

Table I

IMPORTS AND EXPORTS OF AGRICULTURAL, VEGETABLE AND ANIMAL PRODUCTS (MAINLY FOODS), CANADA, 1954

	Imports $ millions	Exports $ millions
(a) Animals and animal products (mostly food)		
Fish and fish products	8.5	129.9
Meats	15.3	52.7
Milk and its products	3.1	10.6
Oils, fats, greases, wax	3.9	3.9
Other animal products	11.3	9.5
Sub-total	42.1	206.6
(b) Agricultural and vegetable products (mostly food)		
Fruits	119.2	14.40
Nuts	22.6	.01
Vegetables	44.5	6.10
Vegetable oils	2.3	.02
Sugar and its products	62.8	6.40
Cocoa and chocolate	25.1	.04
Coffee and chicory	67.7	1.50
Spices	2.8	.01
Tea	23.8	.31
Other	4.3	.62
Sub-total	375.1	29.41
Grand total	417.2	236.01

(a) Animal and Animal Products (Mainly Food)

(i) *Meats*

As indicated in Table I, the value of Canada's exports of animals and animal products in 1954 was almost five times the value of her imports. Major exports in this group are fish, fish products and meats.

In general the Canadian tariff rates on these types of food products are low. The following will serve as typical examples:

	BP	MFN
Fresh meats		
Beef and veal, per lb.	3¢	3¢
Lamb and mutton, per lb.	4¢	6¢
Australia and New Zealand	½¢	
Pork per lb.	1¼¢	1¼¢
n.o.p. per lb.	2¢	2½¢
Bacon, hams, shoulders and other prepared pork uncanned per lb.	free	1¾¢
Other prepared uncanned meats per lb.	free	2¢
Canned beef	15%	30%
pork	15%	25%
hams	15%	20%
n.o.p.	15%	20%
meats from Australia and New Zealand	free	
Fish, salmon (canned)	15%	15%

Canadian meat prices were generally lower than similar quality meats in the United States, the major exception being bacon, hams and lamb. It must be recognized, however, that United States prices are often higher than world prices in the case of meats and many farm products. However, trade data confirm Canada's ability to compete on world markets for most meat products other than lamb and mutton. Canada exported over 20 million lbs. of fresh, chilled or frozen beef in 1954 while imports amounted to only three million lbs. Total beef imports of all types accounted for only 4% of Canadian consumption in 1954. Imports of all pork products amounted to less than 1% of total consumption in 1954. Pork exports totalled 76 million lbs. while imports exceeded one million lbs. Bacon and ham exports exceeded imports by over 26 million lbs. In contrast, mutton and lamb imports accounted for almost 20% of Canadian consumption in 1954. Imports totalled seven million lbs. while exports amounted to only 0.05 million.

(ii) *Poultry and fish*

Fish and canned meats were also cheaper in Canada than in the United States. However, frying chickens were more expensive in Canada; the tariff rate on poultry entering from the United States is 12½%.

(iii) *Dairy products*

With the exception of processed cheese, all dairy products were cheaper in Canada than in the United States. On the other hand, the prices of such dairy products as butter and cheese, which move in significant quantities in world trade, have lower prices in world markets than the domestic prices ruling in Canada.

In the period 1954-56, the price of butter in Canada had been set by a domestic price support programme at a level of 58¢ per pound delivered in Montreal. This has led to a wholesale price of about 60¢, as compared with a wholesale price of New Zealand butter delivered in the United Kingdom of 45.6¢ per pound. In 1954-55 therefore, the domestic price of

butter in Canada was around 14¢ higher than the price at which butter could be obtained abroad.

The tariff on butter is BP 8¢ per lb., MFN 12¢ per lb., and 5¢ per lb. from Australia and New Zealand. In 1954-55 there was a prohibition on private importation of butter. It might appear that the cost of the prohibition could be calculated by multiplying the consumption of butter by 14¢. This, however, would exaggerate the cash cost of the prohibition. Part of the enhanced price of Canadian butter can be imputed to the domestic price support programme, and part to the prohibition. In order to measure the effect of the prohibition we need to know the price of butter which would have ruled in Canada in the absence of the price support programme, but with the prohibition in force. On the basis of information gathered from a number of specialists it has been estimated that a domestic price of butter roughly 5¢ lower than that which prevailed would have cleared the market in Canada.[4] This suggests that, of the difference of 14¢ between the Canadian price and the New Zealand price, about 5¢ can be imputed to the domestic price support programme and 9¢ to the prohibition on imports. Since domestic consumption in 1954 was 315 million pounds, the cash cost of the prohibition on imports was about $28 million. Of course, there is an element of artificiality in charging up the whole of the 9¢ as a cost of the prohibition. In most of the cases considered in this study the size of the Canadian market is small enough in relation to foreign suppliers to permit the assumption that a substantial quantity of imports could be obtained with little or no effect on world prices. Moreover, the further assumption can also be made that this supply would be large enough to set the price in Canada. Given the fact that during 1954 and 1955 the United States was disposing of a butter surplus at world prices these assumptions are not unrealistic for the years being analyzed, but under normal conditions a significant period would probably elapse before supplies obtained from abroad would be large enough to have a controlling effect on the price in Canada. For example, it took four years from the time of the Australian-New Zealand Agreement in 1925, before the flow of New Zealand butter to Canada was large enough to provide more than 10% of the total supply of butter to the Canadian market.

A different situation prevails in the cheese market, but here also the domestic price of cheddar cheese in Canada is partly an artificial one which can only be maintained under special commercial policy arrangements. The tariff on cheese is BP 3¢ per lb. and MFN 3½¢ per lb., with a common rate of 3¢ for cheddar cheese, 1¢ per lb. for cheese from New Zealand in packages weighing two lbs. or less, and 1¢ per lb. for cheese from Australia. Ordinarily Canada both imports and exports cheese; exports of cheddar cheese being subsidized and imports being partly special types of cheese

[4]We have not assumed that this reduction in price would dispose of the current surplus.

from Western Europe or cheddar type cheese from New Zealand. Since 1952 exports of cheese from New Zealand to Canada have ceased under the provisions of a "gentleman's agreement". As a result of this combination of devices, the tariff, subsidized exports and a virtual prohibition on cheese exports from New Zealand, the price of cheese to Canadian consumers has been higher than it would have been in the absence of these arrangements. The cash cost has been estimated at 3¢ per lb. or a total of around $3 million.

(b) Agricultural and Vegetable Products (Mainly Food)

Canadian rates on manufactured and prepared foods are higher than on non-manufactured foods. Most Canadian foods are exempt from the 10% manufacturer's sales tax: pickles, catsup, margarine, tea, coffee, carbonated beverages, baking powder, fruit cocktail and spices are some of the major exceptions to the exemption rule. Carbonated beverages are also subject to a 10% excise tax levied on the manufacturers' cost.

(i) *Sugar*

The sugar tariff has both a long and complicated schedule and a long and complicated history. In the past, Canada, in this respect sharing the experience of a number of other countries, relied upon a tariff on raw sugar for a substantial portion of tariff revenues. At the same time a sufficient margin was left between the rates on raw sugar and refined sugar to encourage the development of a domestic refining industry, and in earlier decades this combined revenue and protective schedule was a major part of the whole tariff. Over the years its relative importance has declined but it is still of considerable significance. In view of the complexity of the institutional arrangements in sugar production and marketing, only a sugar expert can move with full confidence in this area. It is thought, however, that the following quantitative analysis is at least roughly accurate.

The general pattern of rates, as reflected in the 1954 trade is as follows: the ruling MFN rate on raw sugar in 1954 was 1.36¢ per lb. and this was the rate charged on imports of 1.6 million cwt. from Cuba. The average price of raw sugar imported from Cuba in 1954 was 3.36¢ and, with the addition of the tariff, 4.7¢ per lb. The BP rate is about .31¢ per lb. and with slight variations this was the rate charged on 10.5 million cwt. from British East Africa, British Guiana, Jamaica, Australia and Fiji. The price of sugar from countries enjoying the BP varied from 3.69¢ to 4.31¢ or an average price of 4.0¢ per lb. or 4.31¢ per lb. with the addition of the duty. It is generally thought that sugar producers in BP countries take advantage of the preference which they enjoy in the Canadian market, and charge a price which is higher than the Cuban price but lower than the Cuban price plus the tariff. The 1954 import data support this hypothesis. The average price of raw sugar from BP countries was .64¢ per lb. higher than the Cuban price

without the tariff but .41¢ per lb. lower than the Cuban price plus the tariff. This means that producers of sugar beets in Canada in effect enjoy a tariff of almost 1¢ per lb. (.31¢ tariff rate and .64¢ accruing as a preferential margin to BP countries). In addition to the protection afforded Canadian producers of sugar beets, and the preferential margin accorded producers in BP countries, the tariff also provides protection to Canadian refiners. The ruling MFN rate on refined sugar is 1.89¢ per lb. At this rate a significant quantity of refined sugar was imported from Cuba but, following 1953, shipments virtually have been eliminated. This was apparently the result of an informal arrangement with the Cuban sugar producers by the Canadian government, whereby the Cuban producers refrained from shipping refined sugar into Canada in return for a commitment by Canadian refiners to import certain quantities of Cuban raw sugar.

Given that the price of refined sugar from Cuba is almost 2¢ per lb. lower than the price of refined sugar in Canada, the gross cost of the tariff to Canadian consumers is around \$27 million. Of this total, about \$6 million accrues to the government in the form of revenue so that the net cash cost of the tariff is around \$21 million. Of this total, it would appear that around \$6 million accrues to producers in BP countries. Of the remaining figure of around \$15 million, some portion accrues to the growers of sugar beets and some to sugar refiners. If sugar beet producers benefit to the extent of their effective protection, which is around 1¢ per lb., their share would be of the order of \$2 million to \$3 million.

(ii) *Flour and bakery products*

Although flour, bread and vanilla cookies were cheaper in Canada than in the United States, prepared cereals, soda crackers and cake mixes were more expensive in Canada. Tariff rates on the prepared cereals and cake mixes were BP 20% and MFN 20% in 1954 and on soda crackers were BP free and MFN 20%.

(iii) *Fruits and vegetables*

The following are some examples of the fruit and vegetable rates:

Fruit and vegetable rates	**BP**	**MFN**
Citrus fruits	free	free
Fruit juices, canned and frozen	free	10%
Bananas	free	50¢ per stem
Canned pineapple, per lb.	1¢	2¢
except Australia and South Africa	free	—
Strawberries, frozen	10%	17½%
Canned peaches, per lb.	2¢	2½¢
Canned peas and corn, per lb.	free	1½¢
Canned tomatoes, per lb.	free	2¢
Frozen vegetables	10%	17½%
Frozen soups	15%	20%
Fresh lettuce[a]	free	10% or 1¢ per lb.
Fresh tomatoes[a]	free	10% or 1½¢ per lb.

[a]The specific rates are applied when Canadian produce is in season or coming into season.

The canned and frozen fruit juices appeared to take advantage of the tariff protection. Most fresh fruit appeared to be equivalent in price in Canada and the United States in season. However, as is the case with fresh vegetables, the ad valorem rates are replaced by specific rates for seasonal periods of eight to ten weeks or longer when fresh fruits are in season or are coming into season. As a result, most of the fresh fruits which are imported are subject to the 10% rate.

Fresh vegetables (lettuce, celery, carrots, etc.) enter Canada under an average rate of BP free and MFN 10% except during certain seasons of the year when MFN specific rates are in effect. Producers of lettuce, celery and onions seem to take advantage of this protection while those producing cabbages and carrots do not. Fresh tomatoes were cheaper in season in Canada than in the United States but between 40% and 50% of total consumption is imported. Canned tomatoes and pork and beans also were more expensive in Canada than in the United States. The MFN rate on frozen strawberries would amount to about 5% protection on a 15 oz. package. Canadian prices reflected this protection fully. Canadian prices for the nine types of frozen vegetables priced, averaged 14% higher than United States prices. Frozen soups averaged 20% higher in Canada than in the United States. Prices of frozen chicken pies also reflected the full tariff protection.

(iv) *Fats and oils*

Margarine, like butter, can enter Canada only under licence. In addition, its price is enhanced by a 10% manufacturers' sales tax and laws in most provinces prohibit the addition of colour. The wholesale price of Canadian margarine in 1954 was 34.5¢ per lb. as contrasted with 26.6¢ per lb. in the United States. The cash cost of the prohibition in 1954 would amount, therefore, to between 4¢ and 5¢ per lb. on the 116 million lbs. consumed —a total of $5 million to $6 million.

Vegetable oils (shortening) are subject to a BP 15% and MFN 20% tariff rate, but Canadian prices averaged 4% above United States prices. Salad dressings were subject to the same rates but prices were substantially above the United States price plus the full tariff protection.

(v) *Other foods*

Some typical rates on miscellaneous foods are as follows:

	BP	MFN
Peanuts—green	free	free
—shelled, per lb.	1¢	1¢
Cocoanut, desiccated, per lb.	2¢	3¢
Tea, per lb.	free	2¢
Coffee—green, per lb.	free	2¢
—roasted, per lb.	2¢	4¢

	BP	MFN
Cocoa preparations	22½%	22½%
Baking powders, per lb.	4¢	5¢
Nutmeg, ground	20%	27½%

Almost all our tea comes from Commonwealth countries and is not dutiable, while Canadian coffee prices were considerably above United States coffee prices.

The 20% rate on catsup entering Canada from the United States is fully reflected in Canadian prices. The Canadian price of baking powder also reflects the protection afforded by the tariff.

(*c*) *Summary*

Two methods were used for computing the cash cost of the tariff and import prohibitions. Sugar, cheese, butter, margarine and coffee were treated by calculating the increased price per lb. of Canadian output as compared with world prices multiplied by the number of pounds consumed in Canada in 1954. All other items were estimated on the basis of expenditure weights obtained from D.B.S. The cost of the tariff for the items for which quantity data were used was:

	$ million
Butter —9¢ per lb. on 315 million lbs.	28
Cheese —3¢ per lb. on 108 million lbs.	3
Sugar —almost 2¢ per lb. on 1,463 million lbs.	27
Margarine—4¢ to 5¢ per lb. on 116 million lbs.	5
Coffee —2¢ per lb. on 94 million lbs.	2
Sub-total	$65

Food expenditure in 1954 totalled $3.4 billion. Assuming that 8% of total food expenditure is subject to the manufacturers' sales tax and that the markup on grocery items at the retail level is 14.4%, then sales tax would account for about $23 million of total food expenditures. On the basis of the pattern of food expenditure obtained from the 1953 survey of family expenditure, it is estimated that 22% of total food expenditure was increased on the average 7% by the tariff. On this basis the cash cost of the tariff on all items except those calculated by the quantity method in 1954 was $50 million to $55 million. Import duties of $24 million collected on imported foods in 1954 must be subtracted, leaving a net cash cost of the tariff or prohibitions on food items of $90 million to $95 million.

Table II

WEIGHTS AND RELATIVE PRICES USED IN FOOD ESTIMATE[a]

Food items	Weight	Price relative ex tax Can./U.S.
	%	%
Lamb	.49	109
Chicken and poultry	3.34	104
Eggs	4.13	101
Shortening	.49	104
Lard	.13	108
Salad dressing	.40	120
Other fats and oils	.22	111
Soda crackers	.53	112
Prepared cereals	.75	116
Unprepared cereals	.40	115
Baby cereals	.18	83
Mixes—cake, etc.	.45	118
Other cereal products	.49	118
Bananas	1.20	104
Berries, fresh	.22	100
Other fresh fruits	.85	105
Tomatoes	.94	105
Celery	.45	109
Lettuce	.49	110
Onions	.40	105
Other fresh vegetables	.88	110
Frozen fruit juice	.22	109
Frozen vegetables	.13	114
Frozen other	.05	120
Canned fruit juice	.75	110
Dried fruits and nuts	.40	101
Canned tomatoes	.31	105
Canned baby food	.62	101
Baking supplies	.31	120
Candy, gum	1.16	100
Desserts, pkg.	.53	105
Pickles and catsup	.76	120
Weighted average	22.00	107

[a]Space does not permit publication of all the weights.
SOURCE: D.B.S., Reference Paper No. 60, *Urban Family Food Expenditure 1953.*

Table III

FOOD PRICES IN CANADA AND THE U.S.—1955

Product	Unit	U.S. price ¢	Can. price ¢	Can. Tax ¢	Price relative ex tax Can./U.S. %
Beef—round steak	lb.	90.4	73.6	—	81
rib roast	lb.	70.5	58.5[a]	—	83
blade roast (chuck in U.S.)	lb.	50.1	49.2	—	98
Hamburger	lb.	39.5	38.0	—	96
Pork chops—loin	lb.	79.3	69.0	—	87
Bacon, sliced	lb.	65.9	69.6	—	106
Ham, smoked	lb.	60.5	67.3	—	111
Lamb, leg	lb.	68.1	75.4	—	111
Frying chickens	lb.	55.0	59.3	—	108
Fish: cod fillets, frozen or fresh	lb	39.0[a]	37.1	—	95
halibut, frozen or fresh	lb.	69.0[a]	55.6	—	81
salmon, pink canned	lb.	55.9	47.9	—	86
Canned meat, Spam, Klik (Can.)	12 oz.	43.0[a]	43.0[a]	—	100
Meat, fish and poultry:					
corned beef, Argentine in Can.	12 oz.	48.0[a]	45.0[a]	—	94
—roast beef, Argentine	12 oz.	51.0[a]	45.0[a]	—	88
Dairy products:					
Milk—fresh (grocery)	(Imperial) qt.	26.3	20.4	—	78
—fresh (delivered)	(Imperial) qt.	27.7	23.4[b]	—	84
—evaporated	16 oz.	15.1	15.1	—	100
Butter	lb.	70.9	64.1	—	90
Cheese, processed	lb.	57.7	58.5[a]	—	101
Ice cream	(Imperial) pt.	34.8	31.0[a]	—	89
Flour and bakery products:					
Flour, wheat	lb.	10.8	7.4	—	69
Bread, white	lb.	17.7	12.5	—	71
Corn flakes	8 oz.	15.0	17.4	—	116
Biscuit mix	20 oz.	27.3	27.0[b]	—	99
Soda crackers	lb.	27.0	30.0[b]	—	111
Sponge crackers	lb.	33.0[a]	37.0[b]	—	112
Vanilla cookies	8 oz.	23.8	23.0	—	97
Cake mix—no eggs needed	14-16 oz.	29.0[a]	33.4	—	115
Cake mix—eggs needed	14-16 oz.	29.0[a]	35.0[a]	—	121
Fresh fruits and vegetables:					
Apples	lb.	15.1	13.3	—	88
Bananas	lb.	17.0	20.0	—	118
Oranges, size 288	doz.	39.5	38.1	—	96
Grapefruit, size 96	½ doz.	54.0	47.0	—	87
Potatoes	10 lb.	56.4	46.8	—	83
Onions	1 lb.	8.1	8.5	—	105
Carrots (top off in cel. bag)	1 lb.	13.9	10.4	—	75
Lettuce, size 60	lb.	16.4	20.6	—	126
Celery		14.9	16.2	—	109
Cabbage	lb.	8.3	8.2	—	99
Tomatoes, fresh field	lb.	28.3	23.5	—	83

Product	Unit	U.S. price ¢	Can. price ¢	Can. Tax ¢	Price relative ex tax Can./U.S. %
Canned vegetables and fruit:					
Orange juice	20 oz.	15.0	16.9	—	113
Peaches	15 oz.	30.0	21.2	—	71
Tomatoes	28 oz.	25.0	26.3	—	105
Canned peas	20 oz.	25.3	20.7	—	82
corn, cream style	20 oz.	20.1	19.0	—	95
pork and beans	15 oz.	15.8	16.8	—	106
vegetable soup	10¼ oz.	14.2	13.6	—	96
baby foods	5 oz.	9.7	9.8	—	101
Dried fruits:					
Prunes, medium	lb.	33.7	32.3[a]	—	96
Raisins—Australian and Californian	lb.		23.1[a]	—	91
—Californian	lb.	25.5[a]		—	91
Frozen fruits and vegetables:					
Strawberries	15 oz.	40.8	47.2	—	116
Orange juice concentrated	6 oz.	18.3	20.0	—	109
Lemonade concentrated	6 oz.	15.0[a]	20.0	—	133
Green peas	12 oz.	24.2	25.6	—	106
Green beans — reg. cut	10 oz.	24.1[a]	25.0[b]	—	104
—french cut	10 oz.	23.0[a]	26.0[b]	—	113
Lima beans	12 oz.	32.0[a]	34.0[b]	—	106
Carrots and peas	11 oz.	22.0[a]	24.0[b]	—	109
Cauliflower	10 oz.	27.0[a]	31.0[b]	—	115
Asparagus tips	10 oz.	47.0[a]	54.0[b]	—	115
Broccoli	10 oz.	27.0[a]	30.0[b]	—	111
Chicken pies	8 oz.	22.0[a]	35.0[b]	—	159
Shrimp soup	10 oz.	32.0[a]	41.0[b]	—	128
Ham and pea soup	10½ oz.	21.0[a]	24.0[b]	—	114
Corn	12 oz.	22.0[a]	24.0[a]	—	109
Other foods:					
Catsup, tomato	14 oz.	22.5	30.0[a]	2.6	122
Coffee, in tins	lb.	95.0	117.0[b]	10.0	113
Tea	½ lb.	85.0	63.0	5.4	68
Soft drinks	carton of 6	32.5	36.6	6.2	94
Fats and oils:					
Shortening—hydrogenated	lb.	33.9	35.0[a]	—	103
—with animal fats	lb.	28.0	29.6	—	106
Margarine	lb.	28.9	34.7	3.0	110
Lard	lb.	20.8	22.4	—	108
Salad dressing	pt.	35.3	49.0[b]	—	103
Salad dressing french	8 oz.	22.0[a]	30.0[b]	—	136
Fruit cocktail	15 oz.	27.0	27.0[b]	—	100
Jelly powders	3 oz.	8.6	9.8	0.8	105
Eggs, 1 dozen Grade A large	doz.	60.6	61.5	—	101
Sugar	lb.	10.4	9.2	—	88
Baking powder	16 oz.	25.0	36.0[a]	3.1	132

Product	Unit	U.S. price	Can. price	Can. Tax	Price relative ex tax Can./U.S.
		¢	¢	¢	%
Spices:					
Mustard	4 oz.	22.0[a]	22.0[a]	1.9	91
Cinnamon	1½ oz.	15.0[a]	10.0[a]	0.9	61
Nutmeg	1½ oz.	20.0[a]	16.0[a]	1.4	73

[a]Priced by Dr. Due.
[b]Prices obtained by special pricing in eight major cities of Canada by D.B.S.
SOURCES: Unless otherwise noted, Canadian prices are from Prices Section, D.B.S. and U.S. prices from B.L.S.

III. *Tobacco Products*

The retail prices of Canadian tobacco products contain a large element of manufacturers' sales tax, excise taxes and excise duties. It is important, therefore, when comparing Canadian tobacco prices with those in other countries that these tax elements be taken into consideration.

Duties on cigarettes entering Canada are $2 per lb. plus 15% under both the BP and MFN rates. The customs duty is partly offset by a domestic excise duty of $4 per thousand. Around 5% of the cigarettes consumed in Canada are imported legally from the United States. Some cigarettes are brought into Canada illegally since the significant difference in the tax practices of the two countries encourages smuggling. Duties on cigars are $1.75 per lb. and 15% under both the BP and MFN rates, the domestic excise duty being $1.00 per thousand. The BP and MFN rates on cut tobacco are 80¢ per lb. and the domestic excise duty 35¢ per lb. Only a minor proportion of the domestic consumption of cigars or cut tobacco is obtained from outside the country.

Prices can be compared at either the manufacturers' or the retail level. It appears that the absolute size of the retail margin on cigarettes is roughly the same in Canada as in the United States, so that a difference of 16% in the average manufacturers' price calculated from the 1954 census reports for the two countries falls to a figure of 9% at the retail level. Similarly, in the case of cigars a price difference of 7% at the manufacturers' level falls to around 3% at the retail level. In the case of cut tobacco the difference is more marked. The difference between the customs duty of 80¢ per lb. and the domestic excise duty of 35¢ per lb. provides a very substantial level of protection equivalent to about 40%, on an article with a manufacturers' price excluding taxes of $1.14 per lb. It would appear that a considerable proportion of this protection is used, the average manufacturers' selling price of cut tobacco being about 82¢ in the United States in 1954 as compared with a price of $1.14 in Canada. Since the absolute size of the markup on cut tobacco appears to be much higher in Canada, a comparison at the retail level can be misleading, and an adjustment has to be made to take this difference in retail margins into account.

The selling value of factory shipments of tobacco and tobacco products in 1954 totalled $152 million. Retail sales are estimated at $460 million. Of this amount approximately $233 million is excise and sales taxes, leaving retail expenditures *ex taxes* of $227 million.

The estimated cost of the tariff protection accorded the tobacco products industry, whether based on differences in United States and Canadian manufacturers' or retail prices, amounted to $30 million to $35 million in 1954.

Table IV

WEIGHTS EMPLOYED IN THE TOBACCO ESTIMATE

Manufacturers' level	Output $ millions	Weight	Price relative ex tax Can./U.S.
		%	%
Cigarettes	105	70.3	116
Cigars	14	9.6	107
Cut tobacco	30	20.1	139
Weighted average		100.0	120

Retail level (ex tax and difference in retail distributive margins)	Weight	Price relative ex tax Can./U.S.
	%	%
Cigarettes	76.7	109
Cigars	6.5	103
Cut tobacco	16.8	140
Weighted average	100.0	114

Table V

PRICES OF TOBACCO PRODUCTS, CANADA AND THE U.S., 1955

Product	Unit	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S.
		$	$	$	$	%
Cigarettes	20	0.22	.08	.33	.177	109
Cigars	1	.09	.01	.10	.017	104
Cigars	1	.045	.004	.05	.009	100
Cigars (weighted av.)	1	—	—	—	—	103
Pipe and cigarette tobacco	lb.	1.20	.10	3.00	1.30	155

SOURCES: Cigars—Company A.
Cigarettes—Prices Section, D.B.S. and Cost-of-Living Section, B.L.S.
Cut tobacco—Prices obtained by Dr. Due.

IV. *Alcoholic Beverages*

(a) *Spirits*

Protection against foreign competition is usually given in Canada by the tariff, although in a few cases direct controls are used. An interesting example of another source of protection is provided by the marketing system for alcoholic beverages. The only legal outlets for bottled distilled spirits in most provinces of Canada are the provincial liquor control boards. These boards apply a much higher markup to foreign spirits than to domestic, making the foreign product much more expensive. The example shown in Table VI, illustrates the methods used. A source in the trade reports that an imperial proof gallon of domestic whiskey sold in Quebec in 1956 *ex taxes* at $10. The price of Scotch whiskey for the same year was $8.95 per imperial proof gallon landed in Canada *ex tax* and $9.21 when offered for sale in the Province of Quebec. The provincial liquor board's markup which is added to the cost of Canadian whiskey is $16.87 per gallon while $22.81 per gallon is added to the cost of Scotch whiskey.

Table VI

TYPICAL ELEMENTS ENTERING THE RETAIL PRICE OF WHISKEY

(Prices are for imperial proof gallon)

	Domestic	Imported Scotch
	$	$
Distillers selling prices	10.00	8.95
Excise and customs duties	12.00	12.50
Duty on glass	——	.04
Federal sales tax	2.20	2.15
Freight		.31
Insurance, wharfage and cartage		.16
Cash discount 2½%		.21
Cost to commission	24.20	23.90
Provincial gross profit	16.87	22.81
Retail selling price	41.07	46.71
Markup as % of retail price	41%	49%
Markup as % of cost	70%	95%

In contrast the customs duties and excises levied against foreign whiskey are only 54¢ greater per imperial proof gallon than excises levied against Canadian whiskey and 4¢ of this is duty on the glass container. Duties on whiskey and gin entering Canada are, BP $4.50 and MFN $5 per gallon, and on rum BP $4.50 and MFN $6 per gallon. In addition $8 per gallon excise duty is payable, making a total of $12.50 per gallon on Scotch whiskey and $13 on United States whiskey. Excises on Canadian whiskey amount to $12 per gallon.

Approximately 24% of Canadian distilled liquor production in the fiscal

year 1955 was exported;[5] this fact indicates that Canadian liquors can compete on world markets. Table VII shows Canadian imports and exports of alcoholic beverages in 1954.

Table VII

CANADIAN IMPORTS AND EXPORTS OF ALCOHOLIC BEVERAGES IN 1954

	Imports	Exports
	$	$
Beverages, brewed	285,780	3,281,971
Beverages, distilled	15,361,230	59,346,704
Wines	3,895,387	9,779
Total	19,542,397	62,638,454

SOURCE: D.B.S., *Trade of Canada,* Vol. I, 1954, pp. 135-137.

However, it appears from a study of price data that Canadian producers take advantage of the 50¢ per gallon tariff duty against BP spirits in the domestic market. At the 50¢ per gallon rate, the cash cost of the tariff would be $10 million (50¢ per gallon on 20 million proof gallons produced in 1954). As well, the pricing system of the provincial liquor control boards diverts some consumption from the foreign to the domestic product, resulting in a slightly larger share of the market to the domestic producers than would otherwise occur.

(b) *Beer*

Canadian tariff rates on beer in bottles in 1954 were BP 15¢ and MFN 50¢ per gallon in bottles (6 qts. are held to contain 1 gallon) plus an additional 38¢ per gallon, and for beer not in bottles BP 25¢ and MFN 35¢ plus 38¢ per gallon. In June of 1956 new tariff rates of BP 15¢ and MFN 15¢ per gallon plus an additional 38¢ per gallon went into effect. Since the domestic excise duty is 38¢ per gallon the new rate provides tariff protection of 15¢ per gallon on a product which sells for around $1.25 to $1.50 per gallon at the manufacturer's level.

As noted in Table VII, Canadian exports of beer greatly exceeded imports in 1954 although only slightly over 1% of Canadian production of malt liquor is normally exported.

Since Canadian beer prices were lower than those prevailing in the United States no tariff cost was imputed to this industry. It is worth noting, however, that Canadian retail outlets either directly or indirectly controlled by provincial governments in many cases did not list a wide variety of foreign beer for sale. Foreign products which were not listed were not available. Thus, protection afforded the malt liquor industry in Canada was often

[5]D.B.S., *The Control and Sale of Alcoholic Beverages in Canada, 1955.* In this bulletin fiscal years ending March 31 are used. Hence 1955 data refer to the year ending March 31, 1955.

through channels other than tariff rates, and resulted in a limiting of consumer freedom of choice. With the new tariff rates negotiated in 1956 the situation may change in the future.

(c) *Wines*

As noted from Table VII, Canadian imports of wines greatly exceeded exports in 1954. To date, Canadian wines have not been able to compete successfully in world markets. Moreover, it is very difficult to price wines of equivalent quality in Canadian and foreign markets. Like the other alcoholic beverages, domestic wines are protected by tariffs and discriminatory markups.

Tariff rates on wines entering Canada vary with the alcoholic content of the wines. The largest imports are of non-sparkling wines. Vermouth, apéritif and cordial wines containing 32% or less of proof spirit have duties of BP 20¢ and MFN 20¢ per gallon plus 42½¢ per gallon. Wines with alcoholic content of more than 32% but less than 40% have duties of BP 80% and MFN 80% plus 42½¢ per gallon, except from Australia, New Zealand and South Africa where the rate is 40¢ per gallon plus 42½¢ per gallon. Wines of all kinds containing over 40% proof per gallon have customs duties of BP $5 and MFN $10 plus $8 per gallon of strength of proof.

Wine imports into Canada come largely from France, the United Kingdom, Australia and Italy. In the fiscal year 1955 total wine production in Canada amounted to 5.1 million gallons while imports totalled 1.3 million gallons. Thus imports accounted for 21% of Canadian consumption. The duty on table wines with an alcoholic content of 32% or less would amount to 20¢ per gallon or 8% on wine valued at $2.50 per gallon.

In view of the difficulty of comparing the prices of Canadian and foreign wines of equivalent quality it is virtually impossible to offer an accurate estimate of the impact on Canadian wine prices which would result from the removal of the tariff and other impediments to the marketing of foreign wines in Canada. In any event in view of the fact that the gross value of production of the wine industry in 1954 was only about $12 million, it is clear that the cash cost is probably fairly small and its omission will have little effect on the total estimate.

Table VIII

PRICES OF ALCOHOLIC BEVERAGES IN CANADA AND THE U.S., 1955

	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S.
	$	$	$	$	%
Beer — ½ doz., 12 oz.	1.11	.26	1.10	.43	80

	Br. price ex tax	Can. price ex tax	Price relative ex tax
	$	$	%
Whisky—imperial proof gallon delivered in Montreal	9.26	10.00	108

SOURCE: Beer: Canada—Prices Section, D.B.S.
U.S.—Cost-of-Living Section, B.L.S.
Whisky: a major distributor.

V. *The Automobile Iudustry*

The Commission's study on the Canadian automotive industry describes the general structure of the industry in the following terms:

> "The Canadian automotive industry consists primarily of three major automobile and truck manufacturers, three independent automobile manufacturers (one of whom also produces trucks), one large independent truck manufacturer, several relatively small bus and specialty truck manufacturers, and over 400 firms engaged in the fabrication of automotive parts and the supplying of automotive materials. It includes, as well, the network of manufacturers' dealers which extends into virtually every community and which represents more employment and possibly more capital investment than the basic industry. The three major manufacturers, General Motors, Ford and Chrysler, accounted for 95.5% of total industry output in 1955. Passenger car assembly operations are conducted in Windsor by Chrysler, in Oshawa by General Motors, in Oakville by Ford, in Hamilton by Studebaker-Packard and in Toronto by Nash-Hudson."[6]

Motor vehicles which are produced in the United Kingdom and other Commonwealth countries enter Canada duty free. The MFN rate is 17½%.

(a) *Passenger Cars*

Canadian manufacturers produced 87% of the total new passenger automobiles sold in Canada during 1954; domestic production concentrates on the so-called low-priced cars. Most of the high-priced cars and convertibles are imported—the Oldsmobile 98, Cadillac, Lincoln, most Chryslers and others.

[6] *The Canadian Automotive Industry*, a study prepared for the Commission by The Sun Life Assurance Company of Canada, p. 40.

The suggested retail prices of several popular brands of automobiles sold in Canada and the United States are shown later in the prices section. All of the automobiles priced are four-door sedan models without any optional equipment; prices are f.o.b. factory in each case.

A comparison of suggested retail prices, f.o.b. factory, supplied by the manufacturers of Canadian and United States passenger automobiles, indicates that four-door sedan models of the three largest selling low-priced cars without any optional equipment averaged \$210, \$305 and \$274 respectively higher in Canada *ex taxes* than identical models in the United States in 1954. These prices were 112%, 118% and 116% respectively of United States prices.

The existence of a tariff of 17½% on automobiles would suggest that the maximum additional amount which a Canadian consumer could be forced to pay for an automobile, over and above the amount paid by an American consumer, is 17½% of the American manufacturer's price. This, however, is not the case. Since the tariff must be paid on the fair market value of the automobile, a consumer who purchases an automobile at retail in the United States must pay duty on the retail price; i.e., he must pay duty on the American retail margin. This means that even in the absence of any special tax situation, the Canadian consumer can be charged a price 17½% higher than the retail price in the United States. This in itself means that Canadian retailers can charge a margin which in absolute terms is 17½% higher than that of their counterparts in the United States. Moreover, since Canadian sales and excise taxes are levied on the duty-paid value of the imported good, a consumer who wishes to bring in an automobile from the United States must in effect pay a levy of 20% on the American retail margin. This means that after allowance for taxes paid by dealers the prices charged by dealers in Canada can be more than 17½% higher than American prices, and it is still not worthwhile for consumers to import directly.

For example, an automobile dealer importing cars can purchase from a United States manufacturer and pay duty of 17½% of the manufacturer's price. The amount of duty on an automobile priced at \$1,420 is \$248.50. To the price plus duty is added 20% excise and manufacturer's sales taxes —another \$333.70. The imported car would therefore cost the dealer \$2,002.20, delivered in Windsor. A Canadian resident would pay for the same car in Detroit \$1,790 (the suggested retail list price *ex tax*) plus 17½% duty levied on the retail value (\$313.25) plus 20% excise and sales taxes also levied on the retail price plus duty (\$420.65) or a total of \$2,523.90, delivered in Windsor. Thus, as long as the Canadian dealer sells for something less than \$2,523.90 (which would allow him a markup of \$521.70), it will not pay the consumer to purchase in Detroit. Hence the tariff rate from this point of view of the consumer is not 17½% but 22%. The Canadian suggested list price for this model is \$2,431 including

taxes. If taxes are deducted from both Canadian and United States prices this is 18% above the suggested list price in the United States. It will be noted in Table IX that the suggested list prices of two of the expensive imported models are 22% higher in Canada *ex tax* than in the United States.

Insofar as the 17½% protection afforded the automobile dealer by valuation practices, and the additional 4% to 4.5% protection arising from the method of levying sales and excise taxes is reflected in retail prices this might be regarded as part of the cash cost of the tariff. It will be recalled that the additional cost due to distributive margins has been discussed above, and in this section, the estimated cost of the tariff will be based on differences in manufacturers' prices on domestically produced cars.

The apparent supply of new passenger automobiles for Canadian consumption in 1954 was made up as follows:

Factory shipments to domestic market	267,452
Imports	38,509
Less imports re-exported	—84
Apparent supply[a]	305,877

[a]D.B.S., *The Motor Vehicles Industry, 1954.*

Price data received from the manufacturers show that the differences in United States and Canadian passenger car prices are greater on the medium and high-priced cars than on low-priced cars. Ward's *Canadian Automobile Yearbook* shows that 81% of total Canadian passenger cars produced for the domestic market were low-priced models.

If the cost of the tariff is based on differences in cost of manufacture in the two countries only, the average cost difference for the low-priced models is $155 as shown below.

Make of auto	**Difference in manufacturers' cost**	**% of 1954 domestically produced market**
	$	%
A	172	22
B	185	12
C	146	32
D	124	15

The higher-priced models averaged $320 higher. For all domestic production a weighted average of manufacturers' prices of passenger cars was $186 higher than the average American price.

Thus the estimated cost of the tariff for the domestic passenger car industry can be calculated by multiplying $186 by domestically consumed output of 267,000 units—a gross cash cost of $45 million to $55 million.

It is perhaps worth noting that if the gross cash cost had been estimated for 1955 it would have been around $60 million to $70 million.

(b) *Trucks and Buses*

Ninety-two percent of new trucks and buses sold in Canada in 1954 were produced domestically. Canadian consumption of new trucks and buses in 1954 was 64,614 units.

Factory shipments to domestic market	59,666
Imports	4,973
Less re-export of imports	—25
Apparent supply	64,614

Canadian retail list prices supplied by the manufacturers of trucks averaged $362 above similar United States models after tax deductions or 22% higher than United States prices, while the MFN rate on United States imports was 17½%. Manufacturers' prices averaged $220 higher in Canada. The estimated gross cash cost of the tariff on trucks and buses based on the manufacturers' price differences on domestic production is approximately $12 million to $14 million.

(c) *Auto Parts and Accessories*

(i) *Batteries*

Storage batteries had rates of BP free and MFN 20% in 1954. It has been estimated that 60% of automobile batteries sold are of the Group I type, the prices of which appear at the end of this section. Battery prices collected indicated that, in general, Canadian retail list prices *ex tax* for batteries averaged $2.75 higher than similar type United States batteries and $5.75 higher for larger batteries. However, census data indicated that Canadian manufacturers' prices of batteries averaged about $1.50 higher than United States prices.

On the basis of differences in manufacturers' price, the cash cost of the tariff on batteries would be $2 million—$1.50 per unit on replacement sales of 1.4 million units in 1954.

(ii) *Tires and tubes*

Tires are protected by BP 20% and MFN 22½% tariff rates, except on tires for agricultural implements which enter Canada duty free. Average retail prices of passenger car tires *ex tax* averaged about $2 higher than United States tires of similar quality, while truck and coach tires were on the average $20 higher in Canada. Census data indicated differences in average manufacturers' prices of automobile tires which were in excess of $2 but some quality differences may have been involved. The more conservative figures have been used, and the gross cash cost of the tariff on sales of replacement tires and tubes has been estimated to be about $15 million to $20 million.

(iii) *Auto radios*

Canadian consumption of auto radios was 109,000 units in 1954. Canadian retail prices *ex tax* exceeded United States prices by the full amount of the tariff, which is BP free and MFN 20%. Canadian retail prices *ex tax* averaged $16 higher than United States prices for identical auto radios. The cost of the tariff on auto radios at the retail level has been estimated at $1 million to $2 million.

(iv) *Other parts and accessories*

The total estimated value of factory shipments of auto parts and accessories other than batteries, tires and radios in 1954 was about $240 million. Imports exceeded exports by around $170 million. Thus total Canadian consumption of parts and accessories at factory prices was about $410 million. A high proportion of these parts however, went into the production of new cars and only a fraction of total domestic output and imports of parts flowed to the replacement market. Unfortunately almost no information on the relative size of these two flows could be obtained from D.B.S., from the automotive industry study prepared for the Commission, or from the major producers of motor vehicles.

From the information at our disposal, including the estimates made in the Commission's transportation study on the estimated cost of parts and accessories used per vehicle per year, we have concluded that the flow of parts and accessories to the replacement market in Canada in 1954 was certainly not lower than $125 million at factory prices and probably not much higher than $225 million. Comparative price information received from two of the major producers would suggest that list prices of replacement parts averaged around 15% higher in Canada than in the United States. This suggests a cash cost of the tariff on replacement parts and accessories of $19 million to $34 million.

The total cash cost of the tariff for the automobile industry is estimated as follows:

	$ million
Passenger cars	45 – 55
Trucks and buses	12 – 14
Batteries	2
Tires and tubes	15 – 20
Auto radios	1 – 2
Replacement parts and accessories	19 – 34
Total	94 – 127
Less duties collected	—22
Net cash cost	72 – 105

Table IX

A COMPARISON OF U.S. AND CANADIAN AUTOMOBILE AND ACCESSORY PRICES—1955[a]

	U.S. list	U.S. tax (10%)	Can. list	Can. tax (20%)	Price rel. ex tax Can./U.S.
	$	$	$	$	%
(a) *Automobiles: all cars priced are four-door sedans, without any extra equipment, f.o.b. plants.*					
1. Company A					
Model 1	1,728.00	128.00	2,181.00	287.58	118
Model 2	1,819.00	134,00	2,289.00	302.06	118
Model 3	1,932.00	142.00	2,431.00	321.00	118
Model 4	2,362.09	171.00	2,974.00	393.96	118
Model 5	2,502.71	180.00	3,129.00	413.98	117
Model 6	3,976.70	264.00	5,123.00	604.18	122
Model 7	4,728.32	316.00	6,083.00	717.66	122
2. Company B					
Model 1	1,780.00	133.50	2,198.50	290.00	116
Model 2	1,879.00	140.50	2,307.90	304.40	115
Model 3	1,978.00	147.50	2,449.20	323.20	116
3. Company C					
Model 1	1,853.00	133.49	2,208.84	300.84	111
Model 2	1,945.00	140.80	2,322.64	316.64	111
Model 3	2,060.00	159.40	2,476.88	337.88	113
Model 4	2,305.00	154.80	2,825.76	382.76	114
Model 5	2,428.00	163.40	2,984.50	404.50	114
Model 6	2,685.00	180.43	3,342.56	452.56	115
Accessories					
1. Company A					
Model 1—Automatic transmission	178.35	13.35	202.65	27.96	106
—Overdrive	107.60	7.60	135.15	17.64	118
—Power steering	91.50	6.50	114.85	14.98	118
—Heater	72.80	4.80	79.70	8.76	104
Model 2—Heater	79.65	5.15	104.25	11.76	124
—Power steering	107.50	7.50	135.15	17.64	118
Model 3—Heater	128.85	8.85	165.75	20.24	121
2. Company B					
Model 1—Automatic transmission	178.80	13.30	207.85	28.66	109
—Overdrive	108.00	7.70	136.50	17.98	118
—Power steering	97.00	6.90	118.00	15.40	114
—Heater	75.00	5.40	79.45	10.72	99
3. Company C					
Model 1—Automatic transmission	165.00	13.20	201.55	27.80	114
—Overdrive	102.00	7.65	138.87	18.12	128
—Power steering	102.00	7.65	115.00	15.00	106
—Heater	66.43	4.98	77.50	10.00	110

	U.S. list $	U.S. tax (10%) $	Can. list $	Can. tax (20%) $	Price rel. ex tax Can./U.S. %
Model 2—Automatic transmission	189.00	14.03	203.00	28.00	100
—Overdrive	102.00	7.65	138.00	18.00	127
—Power steering	110.00	7.50	135.70	17.70	115
—Heater	75.00	5.01	82.66	10.66	103
(b) *Trucks: truck prices include cab and chassis only for the large trucks.*					
1. Company A					
Model 1—½ ton pickup	1,519.00	94.00	1,864.00	128.77	122
Model 2—1 ton pickup	1,844.00	114.00	2,242.00	155.17	121
Model 3—2 ton pickup (chassis and cab only)	2,208.00	138.00	2,631.00	181.58	118
2. Company B					
Model 1—½ ton	1,576.32	90.32	1,969.00	139.60	123
Model 2—1 ton	1,818.17	104.17	2,269.00	160.80	123
Model 3—1½ ton cab and chassis	1,920.03	110.03	2,419.00	171.20	124
Model 4—3 ton cab and chassis	2,313.58	132.58	2,865.00	202.60	122
Model 5—3½ ton cab and chassis	3,277.89	187.89	3,537.00	249.60	106
(c) *Passenger car engines*					
1. Company A					
Model 1—1950 short block assembly	187.50	11.34[b]	215.00	14.18	114
2. Company B					
Model 1—1950 short block assembly	314.75	15.57	360.00	21.91	113
Model 2—1950 short block assembly	330.00	16.32	380.00	23.14	114
(d) *Tires*					
Company D					
Passenger—670 × 15, 4 ply tubeless	30.74	1.24	30.70	1.06	100
— 670 × 15, 4 ply convent.	27.24	1.09	26.15	.94	96
— 670 × 15, 4 ply 2nd	20.69	1.09	19.65	.86	96
— 800 × 15, 4 ply tubeless	41.03	1.58	41.10	1.42	101
— 800 × 15, 4 ply convent.	36.23	1.43	34.75	1.30	96
Truck and Coach					
—825 × 20, 10 ply	118.32	3.57	114.65	4.93	96
—900 × 20, 10 ply	142.64	4.29	146.45	5.71	102

	U.S. list $	U.S. tax (10%) $	Can. list $	Can. tax (20%) $	Price rel. ex tax Can./U.S. %
Company E and F					
Passenger, 670 × 15, 4 ply tubeless	30.74	1.24	32.30	1.11[b]	106
—670 × 15, 4 ply convent.	27.24	1.09	27.50	.95	102
—760 × 15, 4 ply tubeless	36.90	1.45	39.40	1.36[b]	107
—760 × 15, 4 ply convent.	32.93	1.28	34.20	1.18	104
Truck and Coach					
—825 × 20, 10 ply 1st line	118.38	3.63	136.95	5.89[b]	114
—900 × 20, 10 ply 1st line	142.65	4.30	174.90	6.82[b]	121
—825 × 20, 10 ply 2nd line	92.58	3.63	111.10	4.33[b]	120
—900 × 20, 10 ply 2nd line	115.00	4.30	141.80	5.53	123
(e) *Batteries*					
Company G					
Group I—HD1—17 plate	21.50	.81[b]	27.25	1.01	127
— A1—15 plate	16.95	.62[b]	20.35	.77	120
— K1—13 plate	12.25	.56[b]	14.40	.70	117
— A21—12 volt	28.80	.93[b]	34.50	1.16	120
Group II—HD2—19 plate	22.25	.81[b]	26.55	1.02	119
— A2—17 plate	17.25	.63[b]	20.35	.79	118
— K2—15 plate	12.25	.59[b]	17.80	.74	146
Group III—HD3—19 plate	22.95	.93[b]	31.75	1.16	139
— A3—17 plate	19.40	.69[b]	24.30	.86	125
Group IV—HD4—17 plate	26.40	1.02[b]	37.80	1.27	144
Group V—HD5—19 plate	28.80	1.11[b]	42.00	1.39	147
Company H					
Group I—17 plate	27.95		27.75		98
—15 plate	19.95		21.25		105
—15 plate	15.95		18.20		112
Group II—19 plate	29.50		32.35		108
—17 plate	22.95		26.20		113
Group III—21 plate	34.95		40.80		115
Group IV—23 plate	39.45		45.90		115
(f) *Auto radios*					
Company I	69.95	3.92[b]	89.95	10.16[b]	121
Company I	49.95	2.80[b]	69.95	7.13[b]	133
Company J	56.50	3.05	79.95	9.08	133
Company J	42.75	2.33	64.95	6.64	144

	U.S. list	U.S. tax (10%)	Can. list	Can. tax (20%)	Price rel. ex tax Can./U.S.
	$	$	$	$	%
(g) *Automotive parts*					
Ring set	24.75	.99	26.50	.74	108
Ring set	19.75	.79	19.35	.54	99
Clutch disc	15.55	.69	14.95	.83	95
Clutch disc	14.80	.66	14.25	.71	96
Clutch plate	9.50	.41	13.00	.38	139
Clutch plate	11.60	.51	13.95	.42	122
Water pump	8.60	.36	11.15	.66	127
Water pump	11.25	.47	14.50	.55	129
Radiator	64.75	2.88	64.75	3.53	99
Radiator	74.50	3.31	74.50	4.06	99
Starter	41.00	1.82	50.00	1.39	124
Generator	34.25	1.52	41.50	1.07	124
Generator	50.00	2.22	62.00	1.35	127
Generator	36.50	1.62	45.00	1.16	126
Muffler	10.60	.47	12.50	.63	117
Muffler	10.95	.48	12.50	.63	113
Muffler	10.95	.48	12.50	.63	113
Muffler	10.95	.48	13.95	.70	127
Muffler	10.95	.45	13.95	.70	126
Carburetor	23.50	.97	25.75	.73	111
Carburetor	30.50	1.36	34.95	.95	117
Carburetor	30.50	1.36	34.95	.95	117
Carburetor	22.95	.96	25.50	.71	113
Fuel pump	5.70	.25	6.90	.19	123
Fuel pump	7.90	.35	9.45	.26	122
Brake shoe	7.85	.32	7.95	.29	102
Brake shoe	8.15	.33	8.50	.30	105
Differential case	10.55	.47	12.80	.32	124
Differential case	10.55	.47	12.80	.29	124
Shaft	.95	.04	1.35	.03	145
Pinion	2.50	.12	3.50	.04	145
Side gear	4.55	.20	5.50	.10	124
Gear and pinion	32.50	1.44	35.25[c]	1.08	110
Gear and pinion	33.50	1.49	35.25[c]	1.08	107
Shock absorber	6.25	.23	7.75	.18	126
Shock absorber	7.20	.27	8.50	.18	120
Shock absorber	7.20	.27	8.50	.18	120
Shock absorber	6.25	.23	7.75	.18	126

[a]Prices provided by manufacturers.
[b]Tax estimated.
[c]Adjusted. The Canadian item includes one pint hypoid lubricant, while the U.S. item does not.

VI. *Clothing, Footwear and Personal Furnishings*

This is a large sector of consumer expenditures which embraces within it a major part of the output of the primary textile industry, and all of the output of the clothing, footwear and jewellery industries. The share of imports in total consumption varies considerably among these industries and among the various portions of the industries. For example, it is noteworthy that in the case of primary textiles and clothing the share of imports at the primary level is much higher than at the level of finished clothing. According to the primary textile industry's brief[7], cotton fabric imports supply 45% to 47% of the Canadian fabric market in spite of a tariff of around 19% to 20%; wool fabric imports about 40% of the Canadian market with a ruling rate of around 14% to 15%; and synthetic fabric imports around 25% with a ruling rate of just under 40%. A similar measure published in *The Canadian Primary Textiles Industry* study,[8] using values rather than volume, shows that imports accounted for 30% of the primary cotton textile market during 1952-54, 23% of the primary wool textile market and 14% of the primary synthetic textile market. On the other hand, imports of wearing apparel including tourist purchases in 1954 amounted to around $60 million to $70 million—from 10% to 12% of the value of Canadian manufactured clothing.

Table X

CONSUMER EXPENDITURES ON CLOTHING, FOOTWEAR AND PERSONAL FURNISHINGS, 1954

	Consumer expend. $ millions	Percent	% Distribution from cons. survey
		%	%
Men's and boys' clothing	407.5	22.4	28.4
Women's and children's (including infants)	786.9	43.2	44.0
Footwear	214.9	11.8	12.5
Piece goods	64.9	3.6	2.2
Notions and smallwares	51.6	2.8	0.5
Armed Forces issue	9.1	0.5	not sampled
Jewellery and watches	104.0	5.7	2.5
Dressmaking and tailoring	15.7	0.9	0.4
Laundering, dry cleaning, clothing repairs and pressing	135.2	7.4	7.7
Shoe cleaning and repair	18.2	1.0	1.4
Jewellery and watch repair	12.4	0.7	0.4
Total	1,820.4	100.0	100.0

SOURCE: National Income Unit, D.B.S.; revised estimates based on 1951 benchmark.

[7] *The Canadian Primary Textiles Industry*, a brief, Appendix E.

[8] *The Canadian Primary Textiles Industry*, a study prepared for the Commission by the National Industrial Conference Board (Canadian Office), pp. 28-31.

Canadian tariff rates on manufactured clothing average between 25% and 27½% of the value of clothing imported; the rates on wool clothing are BP 25% and MFN 27½%; on cotton clothing, BP 25% and MFN 25%; on synthetic fibre clothing, BP 20% and MFN 27½%.

Total consumer spending on clothing and personal furnishings in 1954 is estimated by D.B.S. as amounting to $1,820 million, as shown in Table X. Each of these categories of consumption will be dealt with separately. Approximately 7% of this total expenditure on clothing and personal furnishings is made up of manufacturers' sales taxes and excise taxes[9]. Thus, around $133 million of the total expenditure is taxes.

(a) *Men's and Boys' Clothing*

A detailed comparison of clothing prices in Canada and the United States was made for a wide selection of clothing items These data provided a fairly good index of Canadian clothing prices relative to world prices for cotton and synthetic goods. They do not provide a good yardstick of Canadian and world prices for wool items because United States wool clothing prices are much higher than world prices. However, because of inadequate price data and of style differences, it is very difficult to compare prices for a wide range of woollen clothing garments on the Canadian and British markets. It was estimated, therefore, that in the absence of the BP tariff on wool fabrics, which amounts to an average ad valorem equivalent rate of 14%, Canadian woollen clothing would be at least 5% cheaper at the retail level than at present.[10] Moreover, the tariff on woollen clothing also has an effect on Canadian prices. In the absence of both the tariff on woollen fabric and the tariff on woollen clothing, it has been estimated that all wool clothing would be at least 7% cheaper at retail.

Price comparisons of men's and boys' cotton and cotton-blended clothing in Canada and the United States showed Canadian prices ranging from 110% to 139% *ex tax* of United States prices. These differentials can be characterized in large measure by a given quality brand-name shirt which retails for $3.95 in the United States and $4.95 in Canada. The widest differences in cotton prices were noted for overalls and blue jeans.

On the basis of D.B.S. weights, prices collected and the arbitrary price relative taken for woollen goods, the tariff accounted for price increases *ex tax* of approximately 12%. Total consumer expenditures on men's and boys' wear in 1954 were $407 million. Sales taxes would amount to approximately $30 million. Given that prices of men's and boys' wear were increased by around 12% by the tariff, the estimated cash cost of the tariff for these types of clothing in 1954 was $42 million to $47 million.

[9]This estimate is based on an average clothing markup of 27%. It also assumes that approximately one-half of the service items would be wages and takes into consideration the 20% tax on jewellery and watches.

[10]We have assumed that, due to style and institutional factors, much of the wool clothing manufacturing would occur in Canada even if there were no tariff on woollen clothing.

(b) *Women's, Girls' and Infants' Wear*

This clothing basket is made up of a number of items which have cheaper, equivalent or higher prices in Canada than in the United States. As in men's wear, the wool items in ladies' and girls' clothing were almost all cheaper in Canada than in the United States, but more expensive than British woollen clothing. The cotton and synthetic items were more expensive in Canada.

On the basis of D.B.S. weights, the price comparisons indicated that women's clothing was in general 8%, girls' clothing 11% and infants' clothing 13% more expensive in Canada than in the United States or Great Britain. The weighted average is 9% higher in Canada.

Total expenditures on this category of clothing amounted to $787 million in 1954. Sales taxes would amount to approximately $57 million of this total. The estimated cost of the tariff is $62 million to $67 million.

(c) *Yard Goods*

Only 4% of total clothing and personal furnishings expenditures in 1954 were allocated to yard goods and knitting yarn. An examination of yard good prices indicates that Canadian prices were higher on cotton and nylon piece goods than corresponding United States prices, but that woollen goods and knitting yarns were cheaper in Canada than in the United States, but more expensive than British goods.

It has been estimated that Canadians paid 14% more for piece goods and knitting yarns during 1954 than they would have paid in the absence of the tariff. Total consumption expenditures on these items amounted to $65 million in 1954. Approximately $5 million of this total was sales tax. The estimated cost of the tariff, therefore, was $8 million to $9 million.

(d) *Footwear*

The tariff on boots, shoes and slippers is at present BP 20% and MFN 27½%. In 1954 imports of men's shoes from the United Kingdom were slightly in excess of 10% of Canadian production. During the same year 750,000 pairs of women's shoes were imported from the United States over a tariff rate of 27½%. Moreover, the industry's brief contained the following comment on additional imports:[11]

> "It is estimated that an additional 1,500,000 pairs of women's shoes are brought into the country by Canadian tourists visiting the United States either under the duty free exemption of $100 or illegally."

Canada exports over $2 million worth of shoes, mainly moccasins and slippers, compared with recorded imports of over $7 million and a domestic output of $123 million.

[11] *Shoe Manufacturers' Association of Canada*, a brief, p. 8.

Price comparisons indicate that domestic competition maintains an average level of Canadian prices substantially below the foreign price plus the tariff. It would appear that on the average the difference is of the order of 8% at the retail level. Since consumer expenditure on footwear totalled around $215 million, of which over $15 million was sales tax, the cash cost of the tariff was $16 million to $17 million.

(e) *Notions*

Buttons, zippers, thread, binding tape, patterns, sewing supplies, and other items found at notions counters remain to be included with clothing and personal furnishings as do the jewellery items.

Tariff rates on these items vary. The rate on cotton thread is BP 15% and MFN 20%. Buttons carry a BP 20% and MFN 25% rate plus per gross 5¢ which in 1954 yielded an average ad valorem equivalent rate of 33%. Ribbons of natural silk or synthetic fibres are subject to rates of BP 22½% and MFN 25%.

Consumer expenditures on notions have been estimated by the D.B.S. to have totalled around $52 million during 1954 with sales taxes totalling just under $4 million. Price data indicated that prices of these items averaged 10% higher in Canada than in the United States. Thus the cash cost of the tariff on these items amounted to $4 million to $6 million in 1954.

(f) *Jewellery, Watches, Clocks and Silverware*

Tariff rates on jewellery entering Canada are BP 20% and MFN 30%. Watches carry a BP 20% and MFN 30% rate and clocks BP 15% and MFN 30%. Movements and parts of watches are subject to rates of BP free and MFN 15% when imported, Silverware rates are BP 17½% and MFN 27½%.

Canadian jewellery carries a 10% manufacturers' sales tax and a 10% excise tax both levied on the manufacturers' cost. United States jewellery sales are subject to a 10% excise tax levied on the retail price.

Canadian retail watch prices are greatly in excess of Swiss and German prices. However, these differences arise from both the effect of the tariff and retail markup practices which have been described. Since Canada's watch industry is essentially an assembly industry (output of the clock and watch industry totalled $12 million in 1953 while imports of parts and movements totalled $7 million), consideration of the cost of the tariff on watches has been included in the section dealing with distributive margins.

Most costume jewellery items which were priced in Canada and the United States reflected the full tariff protection in their Canadian prices. However, silverware prices appeared to be very similar in the two countries. The cash cost of the tariff was estimated to be $6 million to $7 million.

Dry cleaning, tailoring and shoe repair are services and not subject to tariff duties. However, the materials used in these services are affected by the tariff, and the understatement of the cash cost of the tariff resulting from their omission has been discussed above.

For all clothing and personal furnishings, therefore, the estimated total cash cost of the tariff is as follows:

	$ millions
Men's and boys' wear	42 – 47
Women's, girls' and infants' wear	62 – 67
Piece goods and knitting yarn	8 – 9
Footwear	16 – 17
Notions and smallwares	4 – 6
Jewellery, watches, silverware and parts	6 – 7
Dry cleaning and shoe repair, materials only	– –
Total	138 – 153
Less duties collected	43
Net cash cost	95 – 110

Table XI

CLOTHING, FOOTWEAR AND PERSONAL FURNISHINGS WEIGHTS AND PRICE RELATIVES—CANADA, 1954

	Weight	Price relative ex tax[a]
	%	%
Men's and boys' wear		
Overcoats and topcoats	14.0	107
Sport jackets and sweaters, socks	13.5	107
Suits and slacks, wool	28.3	107
Shirts, business and work	10.7	116
Underwear and pyjamas, cotton	6.3	125
Work pants, blue jeans	4.4	129
Other	22.8	114
Weighted average	100.0	112
Boys' wear		
Coats, sweaters, jackets, slacks, etc. of wool	50.3	107
Underwear of cotton	8.8	122
Jeans and cotton shirts	16.9	117
Other	24.0	109
Weighted average	100.0	110

	Weight	Price relative ex tax[a]
Women's wear		
Fur coats	16.3	106
Woollen sweaters, coats, suits	22.6	107
Dresses, blouses, pyjamas of cotton	7.9	123
Nylon stockings	14.5	105
Other	38.7	108
Weighted average	100.0	108
Girls' wear	100.0	111
Infants' wear		
Woollen items	52.8	107
Cotton items	34.9	122
Other	12.3	110
Weighted average	100.0	113
Footwear		
Rubbers and overshoes	12.8	105
Men's and boys' street shoes	37.2	110
Ladies' and girls' dress and street	37.3	107
Children's	4.2	107
Other	8.5	105
Weighted average	100.0	108
Yardgoods and knitting yarn		
Yardgoods—woollen	15.2	112
—cotton	26.2	116
—synthetic	29.8	118
Knitting yarn	28.8	110
Weighted average	100.0	114
Notions	100.0	110
Jewellery	100.0	130
Silverware	100.0	100

[a]U.S. comparison except where arbitrary relative 107 has been used.

SOURCE: D.B.S., Reference Paper No. 64, *City Family Expenditure, 1953*, Table IV. Space does not permit publication of all the individual weights contained in the D.B.S. report; a summary of the weights and price relatives only has been published.

Table XII

COMPARISON OF U.S. AND CANADIAN CLOTHING, FOOTWEAR AND PERSONAL FURNISHINGS PRICES—1955

Article	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S.
	$	$	$	$	%
Men's wear:					
Topcoat	62.64	—	53.74	3.92	80
Suit	64.92	—	61.37	4.48	88
Slacks — wool[a]	17.50	—	16.50	1.20	87
Slacks — blend	5.58	—	7.95	.58	132[f]
Sports jacket[a]	35.00	—	32.50	2.37	86
Sweater[a]	5.25	—	4.95	.36	87
Business shirt	3.95	—	4.95	.36	116
Business shirt	2.22	—	2.87	.21	119
Pyjamas	2.99	—	3.96	.29	123
Undershirt[b]	.98	—	1.29	.09	122
Shorts	1.08	—	1.56	.11	134[f]
Shorts[b]	.98	—	1.29	.09	122
Work shirt[a]	2.49	—	2.98	.22	111
Flannelette shirts[a]	2.98	—	3.98	.29	124
Work pants	3.61	—	4.71	.34	121
Overalls[b]	4.33	—	5.89	.43	126
Overalls[b]	2.56	—	3.85	.28	139
Socks — all wool[a]					
— nylon and wool[a]					
— stretch					
Windbreaker[a]	10.98	—	10.98	.80	93
Gloves, leather[a]	4.98	—	3.98	.29	74
Hat, felt[a]	8.75	—	8.75	.64	93
Boys' wear					
Station wagon coat[a]	10.98	—	10.98	.80	93
Slacks, wool flannel[a]	9.10	—	8.83	.64	90
Slacks, blend	4.80	—	5.53	.40	107
Jeans[b]	2.76	—	3.49	.25	117
Sports shirt[a]	1.50	—	1.88	.14	116
Sports shirt	2.42	—	2.86	.21	110
Sweater — wool[a] (V-neck pullover)	5.98	—	4.98	.36	77
— orlon[a] (V-neck pullover)	4.98	—	4.98	.36	93
Manufacturers' suggested retail prices:					
Undershirt, cotton	1.00	—	1.50	.08	142[f]
T shirt, cotton	2.98	—	3.95	.21	126
Athletic shirt	.79	—	1.25	.07	149[f]
Knitted brief	.95	—	1.25	.07	124
Broadcloth boxer short	.85	—	1.00	.05	112

Table XII cont'd.

British price comparison	G.B. price	G.B. tax	Can. price	Can. tax	Price relative ex tax Can./Gt.Br.
Sports jacket, Harris tweed	22.00	—	34.50	2.52	145[f]
Suit, wool	33.00	—	55.00	4.01	154[f]
Slacks, wool	15.00	—	19.00	1.39	117

Article	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./G.B. Can./U.S.
	$	$	$	$	%
Ladies' wear:					
Fur coat[b]	221.00	20.00	229.00	15.34	106
Winter coat	49.87	—	54.70	4.00	102
Suit, blends	20.83	—	27.86	2.03	124
Skirt, wool[a]	10.95	—	10.50	.77	89
Street dress[c]	10.95	—	11.95	.78	102
House dress	2.93	—	4.01	.29	127
Blouse, cotton[a]	2.99	—	3.98	.26	124
Blouse, rayon[a]	3.98	—	3.98	.29	93
Nightgown[a]	3.75	—	4.25	.31	105
Slip[a]	3.50	—	3.95	.28	105
Nylon hose	1.15	—	1.29	.09	104
Girdle[a]	5.95	—	6.50	*ex tax*	109
Panties[a]	1.00	—	1.13	.08	105
Brassiere[a]	1.98	—	2.24	.16	105
Pyjamas[a]	2.98	—	3.98	.29	124
Sweater, orlon[a]	6.98	—	6.98	.51	93
Gloves, leather[a]	5.54	—	4.98	.36	83
Girls' wear					
Coat	23.97	—	21.30	1.55	82
Coat[a]	22.00	—	19.39	1.42	82
Dress, cotton[a]	2.98	—	3.97	.29	123
Anklets	.38	—	.54	.04	132[f]
Wool skirts[a]	5.98	—	4.98	.36	77
Sweater, wool[a]	4.98	—	3.98	.29	74
—orlon	4.98	—	4.98	.36	93
Infants' wear:					
Diapers, flannelette[b]	2.91	—	3.89	.28	124
Manufacturers' suggested retail prices:					
Girdles:					
Company A					
No. 1	7.95	—	9.00	excluded	113
No. 2	10.95	—	11.50	"	105
No. 3	13.50	—	15.00	"	111
No. 4	13.50	—	14.00	"	104
No. 5	5.95	—	6.50	"	109

Table XII cont'd.

Article	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S.
	$	$	$	$	%
Company B					
No. 1	8.95	—	10.00		112
No. 2	15.00	—	16.50	"	110
No. 3	18.00	—	21.50	"	119
Hosiery (ladies'):					
Company A					
No. 1	1.65	—	1.95	.14	110
No. 2	1.35	—	1.50	.11	103
No. 3	1.15	—	1.25	.09	101
No. 4	1.00	—	1.15	.08	107
No. 5	1.00	—	1.00	.07	93
Company B					
No. 1	1.35	—	1.35	.09	93
No. 2	1.35	—	1.50	.11	103
No. 3	1.65	—	1.50	.11	84
No. 4	1.35	—	1.50	.11	103
Hosiery (mens):					
Company A					
No. 1 rib stretch	1.00	—	1.50	.11	139
No. 2 stretch	1.50	—	1.50	.11	93
Ladies' street dresses:					
Company A					
No. 1	13.95	—	14.95	.98	100
No. 2	14.95	—	15.95	1.05	100
No. 3	15.95	—	16.95	1.11	99
No. 4	10.95	—	11.95	.78	102
No. 5	14.95	—	15.95	1.05	100
No. 6	10.95	—	11.95	.78	102
No. 7	17.95	—	18.95	1.24	99
No. 8	12.95	—	13.95	.92	101
No. 9 acetate	10.95	—	11.95	.78	102
No. 10 wool	22.95	—	29.95	1.97	122
No. 11 cotton	14.95	—	16.95	1.11	106
Yard goods and yarn:					
Cotton percale	.53	—	.66	.05	115
Flannelette cotton[a]	.49	—	.61	.04	116
Nylon, puckered[a]	1.08	—	1.35	.10	116
Wool flannel[a]	4.50	—	3.50	.26	72
Knitting yarn[a] — 3-ply botany wool	.64	—	.55	.04	80
3-ply nylon	.54	—	.50	.04	85
3-ply wool reinforced	.59	—	.50	.04	78

Table XII cont'd.

Article	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S.
	$	$	$	$	%
Footwear:					
Men's street shoes	14.48	—	12.94	.94	83
Men's oxfords	9.48	—	8.95	.65	88
Men's work boots[b]	5.50	—	4.98	.36	84
Men's low rubbers[a]	2.98	—	2.25	.16	70
Women's street shoes	8.63	—	10.00	.73	107
Women's overboots, rubber[a]	5.98	—	5.98	.44	93
Women's street shoes, suede[a]	8.00	—	8.00	.58	93
Shoe repairs	2.98	—	3.38	.12	109
Heel lifts	.44	—	.47	.03	100
Manufacturers' suggested retail prices:					
Ladies' shoes:					
Company A					
No. 1	12.95	—	14.95	1.09	107
No. 2	10.95	—	12.95	.95	110

British price comparison	G.B. price	G.B. tax	Can. price	Can. tax	Price relative ex tax Can./G.B.
	$	$	$	$	%
Men's shoes:					
No. 1	13.00	—	16.00	1.17	114
No. 2	16.00	—	20.00	1.46	116

Article	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S
	$	$	$	$	%
Dry cleaning:					
Men's suits	1.00	—	1.13	—	113
Women's suits	1.00	—	1.16	—	116
Notions:[d]					
Buttons—5 per card	.10	—	.15	.007	143[f]
—5 per card	.25	—	.25	.0125	95
Duraluminum knitting needles	.25	—	.15	.008	57
Artificial flowers	.10	—	.10	.005	95
Fine 7" zipper	.30	—	.35	.0175	111
Solite dress shield	1.00	—	1.00	.054	95
Dress patterns	.50	—	.50	.03	94
Foam shoulder pads	.39	—	.59	.0225	146[f]
White thread 600 yds.	.35	—	.49	.029	131
Percale bias tape 8 yds.	.175	—	.25	.0125	136[f]

Table XII concluded

	U.S. price	U.S. tax	Can. price	Can. tax	Price relative ex tax Can./U.S
	$	$	$	$	%
Jewellery:[d]					
Gold plated barrettes	.29	.026	.39	.0151	142[f]
Necklace	.50	.045	.69	.0519	140[f]
Ear pendant	.25	.023	.39	.028	160[f]
Novelty double chain brooches	.59	.053	.69	.048	120
Choker	.29	.026	.39	.0292	137[f]
Two strand choker	.29	.026	.50	.0315	177[f]
Cuff links[a]	3.95	.355	4.95	.35	128
Silverplate—Brand A[b] 26-piece	49.28	4.48	49.81	4.98	100

Swiss price comparison	Swiss price	Swiss tax	Can. price	Can. tax	Price relative ex tax Can./Swiss
	$	$	$	$	%
Manufacturers' suggested[e] *retail prices:*					
Watches					
Ladies' wrist—Company A	66.00	2.51	137.50	6.74	206[f]
Men's wrist—Company A	76.80	2.93	147.50	6.86	190[f]
Ladies' wrist—waterproof—Company A	46.80	1.78	97.50	4.78	206[f]
Ladies' wrist—waterproof—Company A	45.60	1.73	97.50	4.78	211[f]
Ladies'—Company B	51.60	1.96	77.50	3.80	148[f]
Men's—Company B	60.00	2.28	107.00	5.24	176[f]

[a]Priced by Dr. Due.
[b]Mail order catalogues.
[c]Manufacturers' suggested retail prices.
[d]Retail distributor.
[e]Tax estimated.
[f]Price relatives *ex tax* are greater than foreign price plus duty; differences in distributors' margins and tax pyramiding may be responsible. These differences are substantiated by manufacturers' suggested retail prices.

SOURCE: Unless footnoted, Canada—Prices Section, D.B.S.; U.S.—Division of Prices and Cost of Living, B.L.S.
Prices are average prices for Canadian and the northern U.S. cities.

VII. *Household Furnishings and Operations*

This category of consumer expenditure includes household textiles, floor coverings, kitchenware and dinnerware, soaps and cleansers, furniture, fuel, electricity and other miscellaneous costs of household operation. Each of these groups will be considered separately.

(a) *Home Furnishings*

Retail sales of home furnishings totalled $211 million in Canada in 1954. This amount was spent to purchase sheets, draperies and other household textiles and floor coverings.

The following list includes a number of typical rates on imported home furnishings.

	BP	MFN
Tablecloths, sheets, pillow cases, wash cloths (wholly of cotton)	22½%	22½%
Curtains (wholly of cotton)	22½%	27½%
Coated cotton fabrics	20%	25%
Synthetic textile fabrics	22½%	25% plus 30¢ per lb.
Coated synthetic fabrics	30%	35%
Linen tablecloths	Free	20% plus 3¢ per lb.
Household blankets	20% plus 5¢ per lb.	25% plus 20¢ per lb.
Wool carpets	25% plus 5¢ per sq. ft.	25% plus 5¢ per sq. ft.
Linoleum	15%	27½%

Price comparisons of individual items for Canada and the United States indicate that Canadian prices are markedly higher than United States prices for almost all items. The exceptions are provided by those goods which Canada imports from the United Kingdom or Western Europe under lower tariffs than those prevailing in the United States; for example, wool carpets, blankets and linen tablecloths.

Taking into account all major sources of imports, it appears that prices would be reduced by at least 19% in the absence of the tariff. This means the cash cost of the tariff for the group of home furnishings is $36 million to $38 million or 19% of $211 million minus sales taxes of $15 million.

(b) *Furniture, Mattresses and Springs*

Canadian consumer expenditures on furniture in 1954 totalled $251 million. Tariff rates on wood and other-than-wood furniture and on springs are BP 15% and MFN 25%. Springs and mattresses of hair, spring and other materials carry BP 20% and MFN 25% rates of duty.

Wood and upholstered furniture imports in 1954 accounted for only 3% to 4% of the value of Canadian consumption; metal office and home furniture imports were about 14% of domestic consumption.

An examination of retail furniture prices in Canada and the United States indicated that Canadian wood furniture in general appeared to be equivalent

in price to similar quality items in the United States before sales taxes were subtracted and, therefore, cheaper than United States prices *ex tax*. However, stuffed furniture, springs and mattresses were between 3% and 30% higher in Canada after tax differences had been subtracted.

On the basis of D.B.S. expenditure patterns, it is estimated that furniture prices would fall at least 5% in the absence of the tariff. The estimated cost of the tariff is therefore $11 million to $12 million or 5% of total sales of $251 million minus sales taxes of about $18 million.

(c) *Household Operation*

(i) *Fuel, electricity and gas*

Tariff rates on the fuel and natural gas entering Canada are comparatively low. Anthracite coal enters free; bituminous has tariff rates of BP 35¢ per ton, MFN 50¢ per ton; gas imported by pipeline enters at an MFN rate of 3¢ per 1000 cu. ft. and fuel oil at a common BP and MFN rate of ⅓¢ per gallon.

As has been pointed out, a decision was taken to exclude the coal industry from this study on the ground that subsidies to this industry are best regarded as a form of regional assistance.

Canadian consumption of fuel oils for heating purposes totalled about 1.2 billion gallons in 1954. The average retail price of fuel oil in Canada exceeds the United States price by more than the tariff, and it has been assumed that part of this difference can be imputed to differences in transportation cost and distributive margins. If allowance is only made for the tariff, the cash cost would be $4 million less duties collected of $2 million, or $2 million.

Electricity rates are much cheaper in Canada than in the United States, but from price data obtained it appears that Canadian prices of gas for heating and cooking purposes were 7% higher than average United States prices in 1954. Canadian expenditure for gas for these purposes in 1954 totalled $44 million. Part of this difference can be attributed to the higher share of manufactured gas in total gas consumption in Canada, and part to transportation costs in bringing natural gas to the population centres of Canada. Moreover, it is obvious that the tariff plays an unimportant part in influencing gas movements, and consequently no attempt has been made to impute a cash cost to the existence of the tariff on natural gas.

(ii) *Soaps and cleansers*

There remains for consideration such sundry items as soaps, detergents, cleansing compounds, waxes, bleaches, brooms, paper supplies and kitchen and china ware. Tariff rates vary on these items so they will be considered in two groups.

The soaps and detergents (toilet soap is included with personal care) are of particular interest because most of the large Canadian manufacturers

are subsidiaries of United States companies and sell identically branded products in both countries. However, Canadian consumers are offered a smaller package at a higher price than American consumers. When prices were converted to a per ounce basis Canadian detergent prices *ex tax* averages 132% of United States detergent prices, while soap powders averaged 111% of United States prices.[12] The tariff rates on soap powders entering Canada are BP 15% and MFN 20%; on dry detergents BP 17½% and MFN 20%; and on liquid detergents, BP 17½% and MFN 20%.

In contrast to soap powder and detergent prices, an internationally sold paste wax was 15¢ per lb. cheaper *ex tax* in Canada than in the United States although protected by a 17½% MFN tariff. Cleansing compounds, protected by a BP 12½% and MFN 17½% tariff were cheaper after tax in Canada than in the United States.

On the basis of D.B.S. expenditure patterns and the price data collected, it appears soap and cleanser prices would be around 8% lower in the absence of the tariff. 1954 consumer expenditures on soaps and cleansers were $64 million; approximately $5 million of this amount would be sales taxes. Thus the cost of the tariff for this group is about $5 million.

(iii) *Other household supplies*

This category includes a great number of household items from lawnmowers and garden tools to chinaware. The tariff rates are as varied as the items themselves; a few representative rates are shown in the following table.

	BP	MFN
Pots and pans of steel	10%	20%
Pots and pans of aluminum	18%	22½%
Electric light bulbs	20%	25%
Lawnmowers (power)	10%	15%
Lawnmowers n.o.p.	10%	22½%
Hand tools	10%	22½%
Baby carriages	15%	22½%
Glassware	10%	22½%
Tableware of china and porcelain	free	25%

For many of the items included in this group Canadian prices *ex tax* were equivalent to, or cheaper than, United States prices. However, most laundry equipment, pots and pans, Pyrexware and household paper supplies were more expensive in Canada.

Total consumer expenditures on these items in 1954 were $93 million. On the basis of D.B.S. expenditure patterns and the price data collected, with an allowance for sales taxes of approximately $7 million, the cost of the tariff on this group during 1954 was $6 million to $8 million.

[12]For differences in prices and sizes of containers, see price data.

The total tariff cost for all household furnishings and operation is, therefore, on the basis of the present estimates, as follows:

	$ millions
Home furnishings	36 – 38
Furniture	11 – 12
Fuel and gas	2
Soaps and cleansers	5
Other supplies	6 – 8
Total	60 – 65
Less duties collected	—15
Net cash cost	45 – 50

Table XIII

WEIGHTS AND PRICE RELATIVES IN HOUSEHOLD FURNISHINGS AND OPERATION

	Weight	Price relative ex tax
	%	%
Home Furnishings:		
Sheets and pillow cases, towels, of cotton and cotton blankets	21.8	122.5 [a]
Wool blankets	3.1	115[b]
Draperies and yard goods	14.2	124
Floor coverings—wool rugs	25.6	120[b]
—other rugs	4.1	119[b]
Other	31.2	114
Weighted average	100.0	119
Furniture:		
Wood, dining, bedroom and unfinished	26.6	100
Chesterfields and sofas	32.6	105
Springs and mattresses	16.9	116
Other	23.9	104
Weighted average	100.0	105
Soaps and cleansers:		
Soap powders, laundry soaps	33.7	111
Detergents	22.4	120[a]
Other	43.9	100
Weighted average	100.0	108
Other household operations:		
Kitchenware, pots and pans	14.3	122
Paper supplies, towels, etc.	10.7	112
Stoves, non-electric and heating	8.7	123
Electric light bulbs	5.8	100
Other	60.5	102
Weighted average	100.0	108

[a]Price comparisons in Canada and the U.S. revealed that Canadian prices exceeded American prices by more than the tariff.

[b]Estimated differential between Canadian and British or Western European prices.

SOURCE: D.B.S., Reference Paper No. 64, *City Family Expenditure, 1953,* Table IV. Space does not permit publication of all individual weights used; this is a summary of the main items.

Table XIV

COMPARISON OF HOUSEHOLD FURNISHINGS AND OPERATION PRICES, CANADA AND U.S.—1955

	U.S. price $	U.S. tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
(a) *Household textiles*:					
Bath towel	1.01	—	1.42	.10	131[c]
Sheet—muslin	2.14	—	4.07	.30	176[c]
—percale[a]	2.81	—	4.88	.36	161[c]
—contour muslin[a]	2.49	—	4.00	.29	149[c]
Blanket—cotton[b]	2.15	—	2.98	.22	128[c]
Bedspread—cotton[b]	8.45	—	10.98	.80	120
Curtain[b]	2.88	—	3.95	.29	127
Plastic tablecloth[b]	.59	—	.75	.05	119
Slip covers—chair[b]	12.98	—	15.95	1.16	114
—sofa[b]	23.98	—	26.95	1.97	104
Drapery—barkcloth, plain[a]	1.70	—	2.25	.16	123
—barkcloth, prints	2.10	—	2.82	.21	124
—gloshene[a]	1.89	—	2.25	.16	111
Sheeting	.72	—	.87	.06	113
Floor coverings					
Scatter rug—3′ × 5′ cotton[a]	7.20	—	9.23	.67	119
(b) *Furniture*:					
Living room suite:					
(Manufacturer's prices)					
A — 2-piece	109.90	—	119.50	11.95	98
B — 2-piece	125.00	—	132.75	13.28	96
Dining room suite:					
Extension table—drop leaf[a]	99.00	—	99.00	7.23	93
Chairs[a]	18.00	—	18.00	1.31	93
Bedroom suite: Major manufacturer—same prices in each country for same quality.					
Mattresses[a]—Company A	29.95	—	34.95	2.55	108
—Company B	39.95	—	59.50	4.34	138[c]
—Company B	49.50	—	69.50	5.07	130[c]
—Company B	69.50	—	89.50	6.53	119
Sofa bed—					
Company C and D[a]	269.95	—	299.00	15.00	105
(c) *Household operations*:					
(i) *Fuel, electricity and gas*:					
Fuel oil (grade 2)					
per imp. gal.	.172	—	.18	—	105
Electricity—200 kwh	6.48	—	3.67	—	57
Gas—10 therms natural	2.70	—	3.30	—	122
(20 therms mfg'd.)	3.09	—	3.30	—	107
Coal—Anthracite	23.90	—	25.00	—	105
—Bituminous	15.07	—	20.15	—	134

Table XIV (Cont'd.)

	U.S. price $	U.S. tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
(ii) *Soaps and cleansers*:					
Soap powders—large size (price per oz. in ¢)	2.12	—	2.57	.21	111
Detergent, large size (price per oz. in ¢)	1.43	—	2.06	.17	132[c]
Cleansing powder, 14 oz.[a]	.13	—	.135	.011	95
Liquid bleach, 16 oz.[a]	.19	—	.20	.017	96
Floor wax, paste—lb.[a]	.69	—	.59	.050	78
—liquid 40 imp. oz.[a]	1.18	—	1.13	.09	88
(iii) *Telephone*	5.19	.51	4.06	—	87
(iv) *Others*:					
Light bulbs	.18	—	.20	.017	100
Wax paper, roll 12″ wide 100′ (U.S. 125′)	.27	—	.30	.026	101
Corn broom, each	.99	—	.99	.085	91
Brooms[a] (per doz.)	12.50	—	9.75	.68	73
Dinnerware—bone china[a] (5-piece setting)	21.45	—	16.00	1.00	70
—semi-porcelain[a] (32-piece)	21.86	—	11.07	.81	47
—pottery[a] (32-piece)	16.00	—	16.00	1.00	94
Glass stemware	.69	—	.64	.05	86
Kitchenware:					
Saucepan	1.01	—	1.32	.10	121
Saucepan[a]—2 qt.	1.95	—	3.25	.24	154[a]
—1 qt.	1.50	—	2.95	.22	182[a]
—2 qt. copper bottom	6.03	—	6.81	.50	105
Pyrex pie plate[a]	.39	—	.55	.04	131[c]
Pyrex cooking dish[a]	.69	—	.95	.07	127[c]
Tea kettle[a]	4.75	—	7.25	.53	141[c]
Laundry equipment:					
Ironing board[b]	6.95	—	9.25	.68	123
Laundry tubs[b]	2.49	—	2.89	.21	108
Tools:					
Hoe[b]	2.15	—	1.99	.14	86
Hammer[b]	1.99	—	1.98	.14	92
Axe[b]	3.25	—	3.25	.24	93
Paint brush[a] 3″ flat (per doz.)	36.00	—	37.20	2.60	96

Table XIV (Cont'd.)

	U.S. price $	U.S. tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
(v) *Manufacturers' suggested retail prices:*					
Kitchenware					
2½ qt. cooker	11.75	—	14.95	0.68	121
5 qt. cooker	19.25	—	19.95	.91	99
Pressure cooker	20.25	—	24.95	1.14	118
Timer	3.95	—	5.75	.26	139[c]
Food separator	1.95	—	1.95	.09	95
Power lawnmower—					
Company A — 18″	89.95	4.28	89.95	8.18	95
Company A — 21″	99.95	4.76	99.95	9.09	95

(vi) Comparison of detergent and soap powder prices and sizes of containers:

	U.S.		Canada		Can. price ex tax	U.S. price ex tax	Can. price per oz.
Detergents	**Size oz.**	**Price $**	**Size oz.**	**Price $**	**$**	**¢**	**¢**
A	20	.30	18	.39	.36	1.50	2.00
B	22	.30	18	.39	.36	1.36	2.00
C	20	.30	23	.39	.36	1.50	1.56
D	22	.30	18	.39	.36	1.36	2.00
Average						1.43	1.89
Soap powders							
A	12¾	.31	14	.41	.375	2.43	2.68
B	12½	.31	19	.39	.36	2.48	1.89
C	20½	.30	15	.41	.375	1.46	2.50
Average						2.12	2.36

[a]Priced by Dr. Due.

[b]Mail order catalogue prices.

[c]Retail markups on sheets appear to be higher in Canada. One major retail outlet in the U.S. has led other stores to apply very low margins on sheets and pillowcases. In other cases, Canadian price exceeds foreign price plus tariff due to distributive margins and other factors discussed earlier.

SOURCE: Prices Section D.B.S. and Division of Prices and Cost of Living.

VIII. *Household Electrical Appliances, Radios and Television Sets*

For many years Canadians travelling in the United States have noticed marked differences in the prices of electrical appliances in the two countries, with Canadian appliances being much more expensive than identical brands in the United States. Part of the differences in retail prices can be attributed to tax rate differences in the two countries. In 1954 Canadian radio and television sets were subject to a 10% sales tax plus a 15% excise tax all levied at the manufacturers' level; the 15% excise tax was a special levy to assist in financing the Canadian Broadcasting Corporation. In the United States in the same year radio and television set sales were subject to a 10% excise also levied on the manufacturers' cost. All other electrical appliances in Canada were subject only to the 10% sales tax. In the United States all other electrical appliances except sewing machines, vacuum cleaners and washing machines were subject to a 5% excise levied on the manufacturers' cost. It is important, therefore, when comparing retail prices in the two countries to take these tax differences into account.

However, other factors are necessary to explain the differences between Canadian and U.S. appliance prices after tax differences have been subtracted. In general, Canadians can buy only two types of electrical appliances for prices equivalent to those charged American consumers, after tax differences have been taken into account. These are electric sewing machines and dry irons. In almost all other cases Canadians pay more in Canada. The weighted average price *ex tax* of all appliances other than sewing machines and dry irons was 17% higher in Canada than in the United States.[13] Price relatives of the individual appliances in the two countries appear at the end of this section.

Tariff rates on electrical appliances are shown below:

	BP	MFN
Electrical wireless and radio apparatus	free	20%
Electrical dry shaving machines	free	free
Refrigerators, electric	17½%	20%
Washing machines, domestic	15%	22½%
Sewing machines	5%	15%
Vacuum cleaners	5%	20%
Electrical apparatus and complete parts, n.o.p.	15%	22½%

A very detailed price comparison has been carried out on electrical appliances. Companies manufacturing and retailing the major appliances in both Canada and the United States were co-operative in giving the model numbers, suggested retail prices and amounts of tax included in the retail prices of identical appliances in both countries. If the appliances were identical except for slight differences in cabinet or other minor features, these differences were noted and price adjustments made. This identification

[13]The weighted average was 20% of which it is estimated 3% was due to differences in distributive margins.

of models has been extremely helpful; it has enabled us to be assured that price differences were due to factors other than product differences.

Although Canadian electrical appliances averaged 17% *ex tax* higher in price than identical American models, there was considerable variation in price differences both between different types of appliances and between different brands of the same appliance. The Canadian television industry has been undergoing quite intense competition during the last four to five years as has United States television. Canadian television prices averaged 17% higher than United States prices, while refrigerators averaged 24% higher and electric ranges 28% higher. On the other hand, washing machines averaged only 7% higher in Canada when the relative consumption of automatic and conventional models was taken into account. One company submitted prices for two of their largest selling brands of table model radios, both of which sold for prices under $25 in Canada. One of these models was 16% higher *ex tax* than the comparable United States model while the other was 50% higher in price in Canada. One brand of automatic washer was 32% higher in price in Canada than an identical model in the United States, while another brand was only 9% higher in Canada.

When an attempt was made to compare the prices of conventional washing machines in the two countries, it was learned that most of the major United States manufacturers with Canadian subsidiaries are no longer manufacturing the conventional-type models in the United States. Thus any prices which would be obtained for these models in the United States were sellout prices for the stocks on hand. However, price comparisons were made for models which are still being manufactured in each country.

The importance of imports in the Canadian appliance market also varies widely among the different major appliances. Imports of both radio and television sets accounted for only 3% of domestic consumption in 1954, while imports of refrigerators accounted for over one-third of consumption and of automatic washers and vacuum cleaners, almost 50%. Imports of freezers accounted for almost three-quarters of Canadian domestic consumption.

For a number of appliances Canadian prices exceeded United States prices by more than the amount of the tariff, after tax differences had been removed. Two factors help to explain these price differences. There was evidence that distributors' margins on electrical appliances were 3% to 5% higher in Canada, and that additional protection is given Canadian-made appliances by the high electrical standards set by the Canadian Standards Association. These factors, which have been discussed in an earlier section, have been excluded from the estimate.

As a means of checking the tariff cash cost estimate based on retail price differences, the cost was also estimated on differences in manufacturers' costs in the two countries.[14]

The cash cost estimate, whether based on retail or manufacturers' prices, was between $34 million and $38 million in 1954. At the retail level, with differences in distributive margins taken into account, the cost was 17% of retail sales of $411 million less sales taxes[15] of approximately $34 million. The cash cost can also be obtained by applying percentage differences in manufacturers' prices in the two countries to the value of output produced for the domestic civilian market. In each case import duties collected have been subtracted.

TABLE XV

ELECTRICAL APPLIANCE WEIGHTS

Appliance	Weight	Price relative ex tax Can./U.S.
	%	%
Radio, phonograph, record players	4.4	120
TV or radio-TV combinations and parts	36.2	117
Musical instruments	2.4	n.a.
Records and music	1.4	104
Vacuum cleaners	5.6	120[a]
Refrigerators	21.7	122[a]
Ranges	10.1	122[a]
Washing machines (14% automatic)	7.0	107
Sewing machines	3.8	98
Other electrical equipment	7.4	113
	100.0	117

Weighted average for all except musical instruments and sewing machines is 117.

[a]Prices collected from manufacturers showed Canadian price was greater than the foreign price plus the tariff; differences may be due to larger distributive margins in Canada and standards set by the Canadian Standards Association.

SOURCE: D.B.S., Reference Paper No. 64, *City Family Expenditure, 1953,* Table IV.

[14]Manufacturers' costs were not ascertained from the producers but from tax data given by the producers.

[15]The amount of sales tax collected on items subject only to the 10% manufacturers' tax averaged 5% of the retail price. Excise plus sales taxes on radios averaged 12.5% and on television sets 13.0% of the retail price. Hence, using weights employed in obtaining the weighted average prices of appliances, 8.2% of the retail prices of all appliances consisted of sales and excise taxes.

Table XVI

PRICES OF ELECTRICAL APPLIANCES IN CANADA AND U.S.—1955

Appliance	U.S. price $	U.S. tax $	Can. price $	Can. sales tax $	Can. excise tax $	Price relative ex tax Can./U.S. %
Electric ranges						
A	249.95	7.55	354.95	19.37	—	138
A	349.95	10.02	449.95	25.50	—	125
A	279.95	8.01[a]	379.95	21.54[a]	—	132
A	179.95	5.40[a]	249.00	13.57[a]	—	135
B	269.95[b]	7.52	339.50	17.94	—	123
B	239.95	6.43	294.50	15.46	—	119
C	239.95	6.25	339.95	17.31	—	138
C	299.95	7.66	399.95	20.36	—	130
C	189.95	4.95	299.95	15.27	—	154
D	259.95	7.41	329.50	15.27	—	124
E	189.95	5.04	269.50	13.72	—	138
E	299.95	7.22	369.50	18.81	—	120
E	469.95	11.37	539.50	27.46	—	112
Washers, conventional						
A	139.95	—	159.95	8.80[a]	—	108
A	179.95	—	194.50	10.70[a]	—	102
B	149.95	—	159.95	8.80[a]	—	101
Washers, automatic						
A	179.95	—	219.95	12.87[a]	—	115
A	279.95	—	349.95	20.12	—	118
B	339.95	—	389.00	19.01	—	109
C	319.95	—	374.50	18.83	—	111
D	299.95	—	419.95	21.23	—	133
D	229.95	—	319.95	16.17	—	132
E	269.95	—	359.95	18.00[a]	—	127
Dryers, automatic						
A	144.95	4.05	184.95	12.29	—	123
A	209.95	5.86[a]	259.95	16.93[a]	—	119
B	254.95	5.67	299.00	15.46	—	114
C	249.95	6.24	284.00	14.20	—	111
D	259.95	6.11[a]	329.95	16.68	—	123
D	179.95	4.49	269.95	13.64	—	146
E	189.95	4.40[a]	189.00	9.64[a]	—	97
Refrigerators						
A	179.95	5.54	244.95	14.06	—	132
A	179.95	5.90	274.95	15.34	—	149
A	219.95	6.79	294.95	17.37	—	130
B	469.95	12.04	499.50	22.65	—	104
B	279.95	8.40	359.50	17.50	—	126
C	219.95	6.02	299.95	15.87	—	133
C	269.95	7.21	339.95	18.02	—	123

Table XVI continued

Appliance	U.S. price	U.S. tax	Can. price	Can. sales tax	Can. excise tax	Price relative ex tax Can./U.S.
	$	$	$	$	$	%
C	299.95	7.90	389.95	20.58	—	126
D	168.98	*ex tax*	194.00	*ex tax*	—	123
D	133.65	*ex tax*	164.35	*ex tax*	—	115
Freezers						
A	319.95	8.00	344.95	20.46	—	104
B	399.95	8.16	399.95	23.75	—	96
C	349.95	8.70	479.95	21.12	—	134
C	469.95	11.59	549.95	24.09	—	115
Food mixers						
A	41.20	1.33	49.95	1.94	—	120
B	19.95	.49	21.95	1.22	—	107
C	46.50	1.52[a]	58.95	3.55[a]	—	123
D	35.64	1.15	48.95	2.95	—	133
D	15.95	.51[a]	19.95	1.20[a]	—	121
Toasters, pop-up						
A	21.95	.49	23.95	1.33	—	105
B	27.50	.61[a]	36.95	2.05[a]	—	130
C	14.50	.45	19.95	1.16	—	134
Steam irons						
A	17.95	.41	17.50	.97	—	94
B	17.95	.41	21.95	1.22	—	118
C	14.95	.34	17.95	.97[a]	—	116
D	17.95	.41[a]	21.95	1.22[a]	—	118
Dry irons						
A	9.95	.33	10.95	.61	—	107
B	12.50	.41	12.95	.72	—	101
C	14.75	.48	13.95	.78	—	92
Electric shavers (not subject to tariff duties)						
A	28.50	.77[a]	29.75	1.63[a]	—	101
B	29.50	.80[a]	31.95	1.85[a]	—	105
C	18.50	.50[a]	19.95	1.10[a]	—	105
C	21.50	.58[a]	24.95	1.37[a]	—	113
Radio (table model)						
A	21.95	1.29	29.95	1.64	2.46	125
A	15.95	1.09	24.95	1.40	2.10	144
B	19.95	1.18	24.95	1.24	1.86	116
B	14.95	.95	23.95	1.19	1.79	150
C	19.95	1.22	24.95	1.27	1.91	116
C	24.95	1.40	27.95	1.38	2.07	104
C	29.95	1.57	34.95	1.72	2.58	108
D	22.95	.72	28.95	1.48	2.22	114
D	29.95	.90	36.95	1.83	2.75	111
D	29.95	.65	29.95	1.47	2.21	90

Table XVI concluded

Appliance	U.S. price	U.S. tax	Can. price	Can. sales	Can. excise tax	Price relative ex tax Can./U.S.
	$	$	$	$	$	%
E	19.95	1.22[a]	29.95	1.47[a]	2.21[a]	140
E	19.95	1.22[a]	29.95	1.47[a]	2.21[a]	140
Television						
A	194.95[b]	13.18	249.95	13.08	19.62	120
A	219.95[b]	13.20	319.95	15.59	23.39	136
A	274.95[b]	16.91	349.95	16.94	25.42	119
B	239.95	13.92[a]	309.95	15.50[a]	23.25[a]	120
B	229.95	13.43[a]	299.95	15.29[a]	22.93[a]	121
B	299.95	17.10[a]	349.95	17.46[a]	26.19[a]	108
B	309.95	17.67[a]	359.95	17.80[a]	27.00[a]	108
C	227.45[b]	13.43	259.95	13.53	20.29	106
C	245.45[b]	14.60	299.95	15.29	22.93	113
C	189.95	11.63	219.95	11.76	17.64	107
C	209.95	12.29	229.95	12.29	18.44	101
C	249.95	14.84	292.45[b]	15.39	23.09	115
C	276.45[b]	15.98	349.95	17.46	26.19	118
Vacuum cleaners						
A	69.50	none	89.50	4.50	—	122
B	79.50	"	119.50	5.43	—	143
C	97.50	"	124.50	6.26[a]	—	121
D	69.95	"	99.95	5.03[a]	—	136
E	109.95	"	129.95	6.15[a]	—	113
E	89.95	"	109.95	5.20[a]	—	116
E	69.95	"	79.95	3.78[a]	—	109
Sewing machines (portable electric)						
A	124.95	none	129.95	7.36	—	98
A	159.95	"	169.95	9.62[a]	—	100
B	169.50	"	169.50	9.59[a]	—	94
B	119.95	"	119.95	6.79[a]	—	94
C	98.95	"	109.00	6.22[a]	—	104
C	166.95	"	169.00	9.56[a]	—	96
D	194.95	"	210.00	11.87[a]	—	102
Coffee percolators						
A	26.95	.86[a]	34.95	1.78[a]	—	127
B	22.95	.73[a]	19.95	1.02[a]	—	85
B	19.95	.64[a]	19.95	1.02[a]	—	98
B	8.45	.27	12.49	.64	—	145

[a]Tax estimated.

[b]An adjustment in price has been made due to cabinet or other minor differences between the U.S. and Canadian products. Tax data relate to the unadjusted prices. Prices were supplied by the manufacturers. Companies vary for each appliance—Company A is not the same company throughout.

IX. *Personal Care*

Cosmetics, toothpaste, shaving cream, facial tissue and other toilet preparations are included under the personal care category of consumer expenditures.

The tariff rates vary on these items. Home permanents, face cream, face powder, shaving cream and shaving soap, toothpaste and powder, and other non-alcoholic perfume preparations used for the hair, mouth and skin have tariff rates of BP 15% and MFN 22½%. Facial tissue has a rate of BP 15% and MFN 22½% as do toilet paper and toilet soap. Razor blades have tariffs of BP Free and MFN 20%.

Imports accounted for about 4% of domestic consumption of toilet preparations in 1954.

Canadians spent $111 million on personal care in 1954. In addition it is estimated Canadians spent another $110 million for haircuts, shampoos and permanent waves which are services and therefore substantially unaffected by the tariff. Most of the personal care items were higher in price in Canada than in the United States after tax differences were eliminated. Razor blades were the major exception; several of the well-known brands of razor blades sold in the United States are also sold in Canada and for equivalent prices in the two countries, although the Canadian price includes a 10% sales tax. Toilet soap also was equivalent in price *ex tax* in the two countries.

However, in the case of toothpaste and shaving cream, Canadian consumers were offered smaller packages at higher prices than American consumers.[16] When the average price per ounce in each country was calculated, the toothpaste was 26% more expensive in Canada than in the United States while the shaving cream was 40% more expensive. Toilet paper was 33% more expensive in Canada while facial and other cleansing tissues were 12% higher.

On the basis of D.B.S. weights, and the price data obtained, it has been estimated that Canadian personal care prices were 14% above United States prices in 1954. Since sales and excise taxes would amount to almost $11 million of consumer expenditures of $111 million, the cash cost of the tariff on personal care was $14 million to $15 million in 1954. Import duties collected amount to about $1 million, leaving a net cash cost of $13 million to $14 million.

[16]See price data for examples.

Table XVII

WEIGHTS USED IN PERSONAL CARE ESTIMATE

Item	Weight	Price relative ex tax Can./U.S. %
Home permanents	6.1	105
Face powder, face cream, lipstick and rouge	13.2	120
Shaving cream and toothpaste	22.8	122[a]
Perfumes, deodorants, nail polish	7.2	119
Razor blades, electric razors	9.8	100
Sanitary napkins, facial tissue, toilet paper	26.1	118
Other	14.8	100
Weighted average	100.0	114

[a]Price relative exceeded foreign price plus duty due to differences in sizes of containers.

SOURCE: D.B.S., Reference Paper No. 64, *City Family Expenditure, 1953*, Table IV. Summary of weights only has been published.

Table XVIII

PRICES OF PERSONAL CARE ITEMS, CANADA AND U.S., 1955

	U.S. price $	U.S tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
Prices from D.B.S. and B.L.S.					
Face cream	1.74	.17	2.07	.18	120
Shaving cream, per oz.	.111	—	.194	.017	140[a]
Toothpaste, per oz.	.157	—	.218	.020	126[a]
Razor blades	.25	—	.25	.01	96
Sanitary napkins	.38	—	.397	.02	100
Cleansing tissues, 100 double	.16	—	.20	.02	112
Toilet paper	.09	—	.13	.01	133[a]
Toilet soap	.08	—	.09	.01	100
Permanent wave refill	1.84	.22	1.87	.17	105
Prices supplied by Company A					
Cold cream	.15	.015	.25	.0239	167[a]
Cold cream	.31	.028	.45	.0447	144[a]
Face powder	.29	.027	.43	.0427	147[a]
Pancake makeup	.33	.030	.59	.059	177[a]
Lipstick	.29	.027	.45	.0442	154[a]
Balm	.25	.023	.37	.0369	146[a]
Prices supplied by Company B					
Cleansing cream	3.85	.35	4.25	.41	110
Face cream	3.85	.35	4.25	.41	110
Deodorant	1.38	.12	1.50	.144	108
Hand lotion	1.21	.11	1.25	.12	103
Face powder	5.50	.55	6.00	.58	109
Lipstick	1.10	.10	1.50	.144	136[a]
Pancake makeup	1.38	.12	1.50	.144	108

Table XVIII concluded

Additional razor blade prices collected by the writer:

Toothpaste and Shaving cream sizes and prices

	U.S.			Canada			
Item	**Size**	**Price**	**Price per oz.**	**Size**	**Price**	**Price ex tax**	**Price per oz. ex tax**
	oz.	**$**	**$**	**oz.**	**$**	**$**	**$**
Toothpaste:							
A	3¼	.47	.145	2⅞	.59	.53	.184
B	3¼	.47	.145	2⅔	.59	.53	.198
C	2.6	.47	.181	2 14/30	.59	.53	.212
Average			.157				.198
Shaving cream:							
A	5	.57	.114	3 15/16	.65	.585	.149
B	4½	.47	.104	1.7	.41	.369	.217
C	5	.57	.114	3 9/16	.65	.585	.164
Average			.111				.177

[a]Price relative exceeds the foreign price plus the duty due to differences in size of containers, distributors' margins or tax pyramiding.

X. *Medical, Dental and Pharmaceutical Expenditures*

The only major category within the medical and dental expenditure group directly affected by the tariff is pharmaceutical preparations. Hospital, medical and dental services do not enter international trade. Also scientific equipment for hospitals and doctors' and dentists' offices now enters Canada duty free. Of course there are many items affected by the tariff which make Canadian health services more expensive than they would be in the absence of the tariff; laundry equipment, ambulances, cotton textiles, elevators and other items entering the construction of the buildings themselves are examples. However, the comparative prices of medical facilities in Canada and the United States shown in Table XIX indicate that Canadian medical facilities were noticeably cheaper in 1955 than similar facilities in the United States. Eyeglasses, with an examination, appeared to be the major exception to the general rule.

Table XIX

COMPARISON OF MEDICAL AND DENTAL SERVICE PRICES, CANADA AND THE U.S., 1955

Medical service	U.S. price $	U.S tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
Office visit (2nd), doctor	3.44	—	2.87	—	83
House visit (2nd), doctor	4.98	—	3.77	—	76
Obstetrical care	117.33	—	65.43[a]	—	56
Appendectomy	158.67	—	117.72	—	74
Hospital—public ward	13.64	—	7.51	—	55
—semi-private ward	15.95	—	9.77	—	61
Eyeglasses and examination	19.06	[b]	20.22	[b]	106

[a]The U.S. obstetrical care is for a qualified obstetrician. The Canadian fee would appear to include general practitioners also.

[b]Sales tax on the materials used is included in each case. This would amount to about 3% in the U.S. and 10% in Canada. Hence the price relative *ex tax* would be very close to 100.

SOURCE: Canada—Prices Section, D.B.S., average for 10 major Canadian cities.
U.S.—Division of Prices and Cost of Living, B.L.S., average for nine northern U.S. cities.

However, the tariff has an important bearing on prices of drugs and pharmaceutical products. For most of the items in this group the tariff rate is BP 17½% and MFN 20% to 25%. Imports in 1954 accounted for 23% of Canadian consumption.

As the accompanying table of prices indicates, most Canadian drug prices were substantially above United States drug prices in 1955; the weighted average of drug and pharmaceutical prices collected showed that Canadian prices averaged 16% above United States prices after tax differences had been taken into consideration.[17]

Total sales of drugs and pharmaceutical products in Canada in 1954 have been estimated by the D.B.S. to be $197 million. Of this total approximately $14 million would be manufacturers' sales tax. On the basis of prices and weights employed, the cash cost of the tariff was $29 million to $31 million. Duties collected on drugs and pharmaceuticals in 1954 totalled over $2 million. The net cash cost of the tariff, therefore, was $27 million to $30 million.

[17]Prescriptions filled by druggists are not taxable under the Canadian manufacturers' sales tax because druggists are not interpreted to be manufacturers. But many of the drugs entering into the prescriptions are taxed when sold by the manufacturers. Major exemptions from the tax are insulin, liver extract, cortisone and ACTH.

Table XX

WEIGHTS USED IN THE DRUG ESTIMATE

Drugs	Weight %	Price relative ex tax Can./U.S. %
Laxative	13	115
Headache tablets	7	123
Vitamins	20	116
Cough medicine, chest rubs, etc.	8	127
Bandages, "band aids", nasal spray	13	113
Ointment	4	111
Antiseptic	5	124
Prescriptions	30	111
—Achromycin		110
—Hydrocortone		108
—Penicillin		116
—Sulfa		108
—Narcotic		105
—Headache		117

SOURCE (of weights): D.B.S., *The Consumer Price Index, January 1949-August 1952.*

Table XXI

PRICES EMPLOYED IN THE DRUG ESTIMATE[a]

(a) The following prices have been received from manufacturers of drugs in both Canada and the United States.

Product	Size	U.S. price $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
Vitamins:					
Geriplex kapseals	100	7.50	8.75	.74	107
Sytobex	10 c.c. vial	2.00	2.60	.22	119
Ascorbic acid tablets	100	2.20	2.60	.22	108
Abdec drops	15 c.c.	1.40	1.95	.16	128
Pulvules Lextron	84	3.50	4.00	.36	104
Gelseals Multicebrin	100	5.65	6.70	.60	108
Homicebrin	120 c.c.	1.40	1.70	.15	111
Pulvules Trinsicon	60	5.30	7.00	.63	120
Chloromycetin kapseals	16	8.50	9.35	.78	101
Dihydrostreptomycin	1 gm. vial	.64	.77	.06	111
Dilantin Sodium kapseals	100	2.05	2.50	.21	112
Penicillin S-R, 400,000	vial	.45	.50	.04	102
Sulphadiazine tablets	100	3.75	4.40	.37	107
Tincture Digitalis	16 oz.	4.60	4.80	.40	96
Phenobarbital tablets	100	.75	.90	.08	109
Acetylsalicylic acid tablets	100	.50	.60	.05	110
Benylin expectorant	16 oz.	2.50	2.50	.21	92
Caladryl lotion	6 oz.	.87	1.00	.08	106
Cas-Evac	4 oz.	1.65	1.70	.14	95
Comfort powder	4 oz.	.37	.50	.04	124
Hydrogen Peroxide	4 oz.	.18	.30	.02	156
Milk of Magnesia	16 oz.	.60	.75	.06	115
Mineral oil	16 oz.	.80	.90	.08	102
Glycerine suppositories	12	.59	.50	.04	78
Adrenalin Chloride solution	1 oz.	1.19	1.55	.13	119
Benadryl hydrochloride kaps.	100	3.50	4.50	.37	115
Analgesic balm	1 oz.	.74	.75	.06	93
Antacid tablets	36	.37	.50	.04	124
Forthane inhaler	1	.60	.75	.06	115
Solution Clopane Hydrochloride	½ oz.	1.25	1.25	.11	91
Pulvules Entoral	20	1.30	2.00	.18	140
Kaosorb	16 oz.	2.30	2.50	.23	99
Pulvules Trisogel	100	1.25	1.65	.15	120

(b) The following prices were obtained from Prices Section, D.B.S. and the Division of Prices and Cost of Living, B.L.S. unless otherwise noted.

	U.S. price $	U.S. tax $	Can. price $	Can. tax $	Price relative ex tax Can./U.S. %
Milk of magnesia	.43	—	.58	.03	128
Aspirin in 100's	.62	—	.79	.03	123
Vitamins	3.54	—	4.23	.21	113
Chest rub	.37	—	.53	.04	132
Bandages	.33	—	.36	.03	100
Prescription—Achromycin	6.00[a]	—	7.10	.43	111
—Hydrocortone	3.75[a]	—	4.02	—	107
—Penicillin	2.82	—	4.02	.36	130
—Headache compound (Aspirins and caffeine)	.93	—	1.00	.04	103
—Narcotic	1.15	—	1.32	.09	105

[a]Priced by Dr. Due.

XI. *Gasoline and Oil*

The tariff on regular gasoline (listed as petroleum products n.o.p. lighter than .8236 specific gravity at 660 degrees Fahrenheit) is BP 0.75¢ and MFN 1¢ per gallon. Lubricating oil valued at less than 25¢ per gallon enters at BP 1½¢ and MFN 2¼¢ per gallon and other lubricating oils at BP 10% and MFN 12½% rates.

A comparison of average retail prices of gasoline in Canada and the United States revealed that regular grade gasoline was 26.2¢ per imperial gallon in the United States *ex taxes* and 27.8¢ per imperial gallon in Canada *ex taxes*. On premium grade gasoline, the United States average price was 29.5¢ and the Canadian price 29.6¢ per imperial gallon. Imports of all motor gasoline accounted for about 5% of Canadian consumption in 1954.

The net cost of the tariff on gasoline used by consumers is, therefore, 1¢ per gallon, on an estimated 900 million to 1,100 million gallons of gas[18] used by consumers in 1954 or $9 million to $11 million minus duties collected of $0.2 million.

An examination of the retail prices of lubricating oils in Canada revealed that regular and premium grade oils at service stations were markedly higher in Canada than in the United States. On the basis of an estimated 10 million gallons for consumer auto use,[19] the cash cost would probably be under a half million dollars.

[18]Estimated from consumer expenditure data.

[19]Estimated on the same consumer-business use bases as gasoline.

Table XXII

COMPARISON OF U.S. AND CANADIAN GASOLINE AND OIL PRICES, 1955

	U.S. price U.S. gal.	U.S. tax U.S. gal.	Can. price Imp. gal.	Can. tax Imp. gal.	Price relative ex tax Can./U.S.
	$	$	$	$	%
Gasoline—regular, gal.	.291	.073	.415	.137	106
—premium, gal.	.319	.073	.441	.145	100
Motor oil—regular, qt.	.350	.015	.530	.04	131
—premium, qt.	.430	.015	.620	.05	123

SOURCE: Prices Section, D.B.S.; Division of Prices and Cost of Living, B.L.S.

XII. *Residential and Non-Residential Construction*

(a) *Residential Construction*

The National Income section of D.B.S. estimates that Canadians invested $1.166 million in residential construction in 1954. Approximately one-half of this amount was spent on the purchase of housing components.

An examination of the prices of residential building components other than wages in Canada and the United States shows that the major portion of housing components are cheaper in Canada than in the United States. This occurs largely because lumber products are generally cheaper in Canada. In 1954 Canadian imports and exports of wood products were as follows:

	Imports $ millions	Exports $ millions
Wood, unmanufactured or semi-manufactured	30.5	441.6
Wood, manufactured	23.9	277.3

Hardwood flooring appears to be the major exception to the general rule that Canadian lumber products are cheaper than United States products. The tariff rate on hardwood flooring entering Canada is MFN 12½%. However, manufactured housing components such as plywood and interior doors are cheaper in Canada than in the United States. Prefabricated housing has a 20% tariff rate when imported from the United States. The table following includes some typical tariff rates on construction components.

	BP	MFN
Cement—per 100 lbs.	5¢	8¢
—manufactures	12½%	17½%
Pipe—cast iron or steel, n.o.p.	free	7½%
—fittings	20%	22½%
—seamless steel in lengths	free	10%
Shingles, asphalt	15%	22½%
Electric fixtures	20%	22½%
Furnaces	15%	22½%
Bathtubs, closets, basins	12½%	22½%

	BP	MFN
Floor tile—cork	free	free
—asphalt and plastic	15%	20%
—linoleum	15%	17½%
Wood dressed on one side only	free	free
Wood dressed but tongue and grooved	10%	10%
Plywood and wood manufactures, n.o.p.	17½%	20%
Wood doors	free	22½%
Air conditioners and elevators	15%	22½%
Transformers and dynamos	15%	22½%
Reinforcing steel, per ton	$4.25	$7.00
Metal windows and fire doors	10%	22½%
Wire nails—1" or longer, per 100 lb.	40¢	55¢
Tacks	15%	27½%
Bolts and nuts, per 100 lb.	25¢	50¢ and 17½%
Sheet glass in rectangles	free	7½%
Glass, window	free	10%

Cement was cheaper in Canada than in the United States but concrete mix and concrete blocks were 4% higher in Canada. Other masonry products such as red faced brick and lime were also cheaper in Canada.

Asphalt insulation, galvanized pipe, sewer pipe, electrical equipment and furnaces were considerably higher in price in Canada than in the United States. Canadian plumbing fixture prices were very competitive with American prices. Most floor tile prices, except cork, were higher in Canada. Floor tile imports accounted for only 6% of consumption in 1954.

On the basis of the weights used, approximately 35% of housing components other than labour were 11% more expensive in Canada than in the United States. Building materials in general are not subject to sales tax and, therefore, no deduction from total expenditures for sales taxes has been made. The gross cash cost of the tariff in 1954 is therefore $20 million to $25 million.

(b) *Non-Residential Construction*

In 1954 Canadians spent $1,676 million on new non-residential construction—for office buildings, hotels, highways, pipelines, plants, barns and all other construction of a non-residential type.

Many different items are employed in non-residential construction, and the tariff rates are as varied as the items. Cement, which is one of the major ingredients in this type of construction has a low tariff. The rates for other main components have been shown in the table immediately preceding this sub-section.

It is difficult to obtain price data for anything like a representative sample of the components of non-residential materials. However, the D.B.S. constructs an index of non-residential construction building costs and the weights which are used for this purpose have been used in this analysis.

On the basis of the D.B.S. weights and the price data collected, it appears that 71% of total non-residential construction costs other than labour, for which prices have been obtained, are more expensive in Canada than in the United States. These prices were on the average 11% above United States prices.

Data collected by the D.B.S. indicate that 61% of the total cost of all construction work is made up of material costs and the balance is made up of wages and salaries.[20] This means, therefore, that 61% of total non-residential construction expenditures were principally for materials other than labour. Since 71% of these material components were 11% higher in Canada than in the United States, the gross cash cost of the tariff for non-residential construction is estimated at $75 million to $85 million.

We have, then, the following cash costs for the construction materials industry:

	$ Millions
Residential building materials	20 – 25
Non-residential building materials	75 – 85
Total	95 – 110
Less import duties paid	– 18
Net cash cost	77 – 92

[20]Reference Paper No. 3, *Non-Residential Building Materials.*

Table XXIII

WEIGHTS USED IN CONSTRUCTION ESTIMATE

(a) **Residential**	**Weight** %	**Price relative ex tax Can./U.S.** %
Cement	4.4	89
Cement mix	1.1	104
Sand and gravel	2.1	100
Brick, tile and stone	5.0	89
Lumber and lumber products	39.5	90
Hardwood flooring	3.1	103
Lath, plaster and insulation	11.3	88
Roofing	2.9	122
Paint and glass	3.2	104
Plumbing and heating	18.6	112
Electrical supplies	3.8	114
Other	5.0	110
Weighted average	100.0	111

Weighted average of 35% of items more expensive in Canada—111.

(b) **Non-residential**		
Cement, bricks, stone, gravel	15.5	89
Concrete mix and blocks	8.5	104
Lumber and lumber products	10.5	95
Plumbing and heating	21.4	116
Electrical equipment and fixtures	11.5	115
Reinforcing and structural steel	16.7	104
Steel and metal work	3.4	108
Other	12.5	111
Weighted average	100.0	111

Weighted average of all items (71%) more expensive in Canada—111.

SOURCE: (a) D.B.S., *Prices and Price Indexes, 1949-1952,* pp. 226-227.
(b) D.B.S., *op. cit.,* Appendix F.
Space does not permit publication of the detailed weights; a summary only is included. In combining the weights, many items which are cheaper in Canada are obscured.

Table XXIV

COMPARISON OF CONSTRUCTION COMPONENT COSTS CANADA AND U.S.—1955

	U.S. Price	Can. Price	Can. Tax	Price relative ex tax Can./U.S.
	$	$	$	%
Cement—(per bbl.)[a]	5.01	4.47	—	89
Read-mix concrete—2000# per cu. yd.[a]	12.54	13.10	—	104
Lumber—spruce 2″ x 4″—per M.bd.ft.		102.00	—	n.a.
—B.C. fir 2″ x 4″ " [a]		108.00	—	n.a.
—pine 2″ x 4″ "	120.00		—	n.a.
—spruce sheeting 1″ x 6″ " [a]	120.00 (spruce or pine)	104.00	—	87
—oak flooring ¾″ x 1¾″ select per M. bd. ft.	260.00	268.00	—	103
Masonry products				
Brick, face red No. 1—per M.	71.00	63.00	—	89
Concrete blocks 8″ x 8″ x 16″ per 100[a]	23.00	24.00	—	104
Lime—dehydrated—per 100	1.86	1.70	—	91
Asphalt shingles—210# per sq.[a]	8.17	10.53	—	129
Rockwool insulation—3″ per M.sq.ft.[a]	81.00	61.00	—	75
Vitrified sewer pipe—6″ per ft.	.45	.60	—	133
Soil pipe—4″ x 5′	4.65	5.15	—	111
Galvanized pipe—1″ per ft.[b]	.29	.34	—	117
Plywood, fir ¼″, 4′ x 8′[c]	4.19 (plus del.)	4.80(del.)	—	100
Interior door—6′6″ x 2′6″ x 1⅜″ each	10.43	8.35	—	80
Paint—exterior white per gal.[a d]	7.28	6.74	—	93
Wire—No. 12 (electric) per lin. ft.[a]	.08	.085	—	106
Plumbing[e] and hardware[b]				
Wash basin—20″ x 18″ complete	72.65	73.60	—	101
Closet — complete	62.00	57.30	—	92
Bathtub — 5′	83.35	81.85	—	98
Hot water heater—25 gal. automatic (U.S. 30 gal.)	119.50	129.50	8.67	101
Furnace—hot air, oil, 100,000 B.t.u.	460.00	552.00	—	120
—hot water, oil, 100,000 B.t.u.	578.60	724.00	—	125
Bedroom light (ceiling)	3.95	3.95	.30	93
Living room lamp	6.50	7.50	.60	106
3″ x 3″ brass door hinge	.70	.75	.06	99
Key door lock—brass	7.95	9.95	—	125
—brass	5.85	7.25	—	124
Pipe—gal.—1″ T's	.35	.45	—	129
—fitting—copper ½″ T's	.19	.24	—	126
—fitting—copper ½″ pipe per ft.	.33½	.28	—	84
Wood screws—¾″ x 5″ per 144	.60	.65	—	108
Finishing nails—1½″ per 2#	.35	.28	—	80
Roofing nails—1¾″ per#	.23	.19	—	83

Table XXIV continued

	U.S. Price	Can. Price	Can. Tax	Price relative ex tax Can./U.S.
	$	$	$	%
Manufacturers' suggested retail prices:				
Bathtubs—5′—A	83.35	81.85	—	98
—B	103.80	94.20	—	91
—C	81.55	89.10	—	109
Water closets—A	79.80	72.20	—	90
—B	154.83	153.75	—	99
—C	44.25	43.90	—	99
—D	62.00	57.30	—	92
Basins —A	89.35	77.90	—	87
—B	12.40	10.48	—	85
—C	8.65	9.90	—	114
—D	61.95	65.53	—	106
—E	72.65	73.60	—	101
Furnaces—A Warm air—oil 75,000 B.t.u.				
forced air (high)	343.80	376.00	—	109
forced air (low)	364.20	435.00	—	119
—B Warm air—oil 100,000 B.t.u.				
forced air (high)	440.00	528.00	—	120
forced air (low)	460.00	552.00	—	120
Furnaces—C Hot water, oil, 75,000 B.t.u.	390.04	492.48	—	126
—D Hot water, oil, 100,000 B.t.u.	578.60	724.00	—	125
—E	440.00	500.00	—	114
Floor tile:				
Asphalt tile—⅛ gauge light Company A	.09	.09	no tax	100
red " A	.11	.115	—	104
brown and black " A	.065	.075	—	115
Vinyl plastic, ⅛ gauge " A	.16	.13	—	81
Cork—⅛ gauge " A	.30	.29	—	97
Rubber—3/32 gauge " A	.20	.23	—	115
Cork—⅛ gauge " B	.29	.29	—	100
Rubber—⅛ gauge " B	.30	.36	—	120
Asphalt—⅛ gauge " B	.065	.08	—	123
Glass (f.o.b. factory)				
Single —12 x 24″ per box	4.25	3.97	—	93
—20 x 20″	4.25	3.97	—	93
—24 x 24″	4.57	4.32	—	94
Double—24 x 24″	6.48	6.48	—	100
—28 x 28″	6.66	6.48	—	97
—30 x 30″	6.66	6.48	—	97
—36 x 36″	7.82	7.32	—	94
Window glass (at retail)				
Single — 8 x 10″ each	.19	.14	—	74
Double—24 x 36″	3.40	2.57	—	76
—24 x 48″	5.44	3.97	—	73
—36 x 60″	12.00	10.03	—	84

Table XXIV concluded

		U.S. Price	Can. Price	Can. Tax	Price relative ex tax Can./U.S.
		$	$	$	%
Thermopane—double glazed ¼″ (common size)					
20 x 60″ each	(20 x 60)	32.00	40.28	—	126
36 x 55½	(36 x 60)	53.00	63.68	—	120
36 x 75	(36 x 72)	71.00	77.65	—	109
72 x 84		150.00	172.64	—	115
Paint (per imp. gal. at retail)					
Interior flat wall paints		6.38	7.75	—	121
Interior semi-gloss and gloss		7.13	8.35	—	117
Interior latex wall		6.86	8.15	—	119
Interior floor enamels		7.19	8.25	—	115
Interior and exterior 1st quality enamels		10.94	10.50	—	96
Interior and exterior 1st quality varnishes		10.38	10.25	—	99

Structural steel shapes—see *The Canadian Primary Iron and Steel Industry*, 1956, a study prepared for the Commission by The Bank of Nova Scotia, Tables 22 and 27.
Electrical wires and cables[f] (per 100 lbs.)

		U.S. Price	Can. Price	Can. Tax	Price relative ex tax Can./U.S.
Bare copper	#4	52.10	54.54	—	105
	#12	53.10	55.72	—	105
Weatherproof	#6	50.93	58.95	—	116
	#4/0, 19	49.18	58.37	—	119
Building wires: Canadex	#14	32.98	37.62	—	114
	#8	137.70	168.43	—	122
Flameseal	#14	10.79	11.20	—	104
	#10	23.80	24.49	—	103
Flexible cords:					
2/18″, 1/64″ POT cord		10.50	12.50	—	119
1/32″		15.75	17.00	—	108

NOTE: Building materials are in general exempt from federal sales taxes in Canada.

[a]Canada—Central Mortgage and Housing, Research Dept.

[b]Prices collected by Dr. Due.

[c]Mail order catalogues.

[d]Prices Section, B.L.S.

[e]Manufacturers' suggested prices.

[f]Submission to Royal Commission by Canadian Wire and Cable Co.

SOURCE:—unless footnoted, as follows:
U.S.—*Building Supply News.*
Can.—*Engineering Contract Record.*

XIII. *Recreation, Reading and Education*

There are many items included in these three categories which are not subject to tariff duties. In the recreation category, admissions to movies, sports events, plays and concerts; licence fees for fishing and hunting and other items are not subject to duty of any kind. In the reading category, newspapers, magazines and books written in foreign languages are not subject to tariffs although these items do enter into international trade. Of the items making up the private education category, text and school books, almost all scientific equipment and, of course, tuition fees are not subject to duty. Thus a large proportion of the expenditures on these three categories will not be subject to any tariff duties.

Canadian expenditures on private education totalled \$107 million in 1954. This entire category will be treated as having no tariff cost because most of the elements of this total are tuition fees at university, private and business schools, and other private instruction, expenditures on text books and other items not subject to duty.

Expenditures for recreation totalled \$236 million and for reading \$139 million in 1954. Many more of the items of these combined categories are subject to tariffs than the education category; some representative rates appear below.

	BP	MFN
Cameras, complete and parts	7½%	20%
Accessories for cameras (range finders, exposure meters, etc.)	free	free
Film	free	20%
Golf clubs	17½%	25%
Bicycles	20%	25%
Books except school, text and foreign	free	10%
Toys	10%	30%
Fishing rods	free	20%

Some of the items which are subject to duty are cheaper in price in Canada than in the United States. Golf clubs and balls were cheaper in Canada than identical brands in the United States. However, golf carts were more expensive in Canada. Boats, bicycles and toys which are manufactured primarily from wood were also cheaper in Canada *ex tax,* as were fountain pens. On the other hand, photographic equipment, outboard motors, many Christmas and other decorations, toys, children's gym sets, plastic swimming pools and lawn chairs were more expensive in Canada than in the United States after tax differences had been subtracted. Toy and doll imports accounted for one-third of Canadian consumption, with a high proportion entering at a rate of 30%. Imports accounted for only 15% of fountain pen consumption.

On the basis of the weights employed and the price data obtained, about 37% of all recreation and reading items are more expensive in Canada than in the United States. On the average these items were 12% more expensive. On this basis the gross cash cost of the tariff to the Canadian population in 1954 is estimated at $15 million to $17 million. The net cash cost, after import duties are subtracted, is $10 million to $12 million.

Table XXV

WEIGHTS EMPLOYED FOR RECREATION AND READING

	Weight %	Price relative ex tax Can./U.S. %
Movie and sport admissions	35.0	not subject to tariff
Magazines and newspapers	25.7	"
Toys	7.7	120
Tricycles, fishing equipment, sporting equipment	4.0	110
Photographic equipment	5.7	120
Luggage	2.1	122
Books	3.5	107
Other	16.3	105
Weighted average	100.0	112

Weighted average for 37% of items over 100 is 112.

SOURCE: D.B.S., *City Family Expenditure, 1953,* Table IV. Space does not permit publication of all weights; a summary only has been published.

Table XXVI

RECREATION PRICES—CANADA AND U.S.—1955

	U.S. price $	U.S. tax	Can. price $	Can. tax	Price relative ex tax Can./U.S. %
Books[a] (best seller list only)					
Monsarrat—*Cruel Sea*	4.00	—	3.00	—	75
Ash—*The Prophet*	4.00	—	4.50	—	112
O'Hara—*Ten North Frederick*	3.95	—	3.95	—	100
Costain—*The Tontine*	5.95	—	6.75	—	113
Ruark—*Something of Value*	5.00	—	5.75	—	115
Lindbergh—*Gift from the Sea*	2.75	—	3.00	—	109
Wouk—*Marjorie Morningstar*	4.95	—	5.75	—	116
Marshall—*A Man Called Peter*	1.98	—	2.49	—	126
Kantor—*Andersonville*	5.00	—	5.95	—	119
Hutchison—*The Incredible Canadian*	5.00	—	5.00	—	100
Gunther—*Inside Africa*	6.00	—	6.00	—	100
Roberts—*Boon Island*	3.75	—	4.25	—	113
Carson—*Edge of the Sea*	3.95	—	4.50	—	114
Lord—*A Night to Remember*	3.50	—	4.00	—	114
Davies—*Leaven of Malice* (Can.)	3.50	—	3.00	—	86
Golf balls[d]					
A	1.00	10%	.75	10%	75
B	1.25	"	1.15	"	92
C	1.25	"	1.15	"	92
Golf clubs[d]					
A Irons	10.00	"	9.75	"	98
A Woods	15.00	"	13.25	"	88
B Irons	7.00	"	8.00	"	114
B Woods	10.95	"	10.50	"	96
Phonograph record[c]	.91	"	.95	"	104
Cameras and equipment					
Film—620 black and white[c]	.45	10%	.47	10%	104
—35 mm colour, 36 exposures[d]	4.95	"	6.55	"	132
Cameras[d] — A	52.40	"	59.00	"	113
B	33.75	"	39.75	"	118
C	75.00	"	91.00	"	121
D	291.50	"	283.00	"	97[b]
E	134.55	"	140.00	"	104[b]
F	54.00	"	53.00	"	98[b]
G	79.50	"	98.25	"	124
H	7.45	"	8.75	"	117
J	14.95	"	17.95	"	120
Projectors[d]—A	54.50	"	67.50	"	124
B	59.50	"	78.00	"	131
C	69.50	"	91.00	"	131
D	72.50	"	95.00	"	131
E	82.50	"	109.00	"	132
F	66.50	"	84.00	"	126

Table XXVI concluded

	U.S. price $	U.S. tax	Can. price $	Can. tax	Price relative ex tax Can./U.S. %
Luggage[d]					
Ladies' overnight case	19.50	*ex tax* 1.95	25.00	1.25	122
Ladies' "Hang-It-All"	25.00	*ex tax* 2.50	33.00	1.65	125
Bicycle—speed gear	49.95	—	49.95	3.50	93
—Jr. 24″	38.95	—	38.95	2.73	93
Plastic hose—50′	2.29	—	2.99	.21	121
—25′	.98	—	1.49	.10	142
Golf cart	10.00	10%	12.69	10%	126
Gym set	19.95	—	21.95	1.54	102
Lawn chair	4.98	—	5.98	.42	112
Plastic wading pool	15.95	—	17.50	1.22	102
Outboard motors[d]	320.00	—	380.00	34.55	108
Fountain pens[d]—A	18.75	.79	18.75	1.58	94
—B	5.95	.24	5.95	.48	95
—Ballpoint	2.95	.20	2.95	.24	95

[a]Priced by Dr. Due.
[b]German cameras priced in the U.S.
[c]Prices Section, D.B.S. and Cost-of-Living Section, B.L.S.
[d]Manufacturers' suggested list prices.
All other prices from mail order catalogues.

Appendix B

OTHER STUDIES PUBLISHED BY THE COMMISSION

Output, Labour and Capital in the Canadian Economy —
by Wm. C. Hood and Anthony Scott
Canadian Energy Prospects —
by John Davis
Progress and Prospects of Canadian Agriculture —
by W. M. Drummond and W. Mackenzie
The Commercial Fisheries of Canada —
by The Fisheries Research Board and The Economic Service of The Department of Fisheries of Canada
The Outlook for the Canadian Forest Industries —
by John Davis, A. L. Best, P. E. Lachance, S. L. Pringle, J. M. Smith, D. A. Wilson
Mining and Mineral Processing in Canada —
by John Davis
Canadian Secondary Manufacturing Industry —
by D. H. Fullerton and H. A. Hampson.
The Canadian Primary Iron and Steel Industry —
by The Bank of Nova Scotia
The Canadian Automotive Industry —
by The Sun Life Assurance Company of Canada
The Canadian Agricultural Machinery Industry —
by J. D. Woods & Gordon Limited
The Canadian Industrial Machinery Industry —
by Urwick, Currie Limited
The Canadian Electrical Manufacturing Industry —
by Clarence L. Barber
The Electronics Industry in Canada —
by Canadian Business Service Limited
The Canadian Primary Textiles Industry —
by National Industrial Conference Board (Canadian Office)
The Canadian Construction Industry —
by The Royal Bank of Canada
The Canadian Chemical Industry —
by John Davis
The Service Industries —
by The Bank of Montreal

Probable Effects of Increasing Mechanization in Industry —
by The Canadian Congress of Labour, now
The Canadian Labour Congress
Labour Mobility —
by The Trades and Labor Congress of Canada, now
The Canadian Labour Congress
Skilled and Professional Manpower in Canada, 1945-1965—
by The Economics and Research Branch, Department
of Labour, Canada
Transportation in Canada —
by J-C. Lessard
Industrial Concentration —
by The Canadian Bank of Commerce
Housing and Social Capital —
by Yves Dubé, J. E. Howes and D. L. McQueen
Financing of Economic Activity in Canada —
by Wm. C. Hood, including A Presentation of National
Transactions Accounts for Canada 1946-1954
by L. M. Read, S. J. Handfield-Jones and F. W. Emmerson
Certain Aspects of Taxation Relating to Investment in
Canada by Non-Residents —
by J. Grant Glassco of Clarkson, Gordon & Co.,
Chartered Accountants
Consumption Expenditures in Canada —
by David W. Slater
Canada's Imports —
by David W. Slater
The Future of Canada's Export Trade[1] —
by Roger V. Anderson
Canada-United States Economic Relations[1]—
by Irving Brecher and S. S. Reisman
Some Regional Aspects of Canada's Economic Development —
by R. D. Howland
The Nova Scotia Coal Industry —
by Urwick, Currie Limited
Canadian Economic Growth and Development from 1939 to 1955 —
by J. M. Smith

[1]This is one of a series of three studies, including the present volume, on Canadian international relations prepared under the direction of S. S. Reisman.